

BEFORE THE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION ]  
OF BLACK HILLS/KANSAS UTILITY ]  
COMPANY, LLC, d/b/a BLACK HILLS ]  
ENERGY, FOR APPROVAL OF THE ] KCC Docket No. 14-BHCG-502-RTS  
COMMISSION TO MAKE CERTAIN ]  
CHANGES IN ITS RATES FOR NATURAL ]  
GAS SERVICE ]

DIRECT TESTIMONY OF

ANDREA C. CRANE

RE: REVENUE REQUIREMENTS

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

September 12, 2014

**REDACTED VERSION  
(PERTAINS TO SCHEDULE ACC-11)**

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1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Andrea C. Crane and my business address is PO Box 810, Georgetown,  
4 Connecticut 06829. (Mailing address: 90 Grove Street, Suite 211, Ridgefield, CT 06877).

5

6 **Q. By whom are you employed and in what capacity?**

7 A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in  
8 utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and  
9 undertake various studies relating to utility rates and regulatory policy. I have held several  
10 positions of increasing responsibility since I joined The Columbia Group, Inc. in January  
11 1989. I became President of the firm in 2008.

12

13 **Q. Please summarize your professional experience in the utility industry.**

14 A. Prior to my association with The Columbia Group, Inc., I held the position of Economic  
15 Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to  
16 January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic  
17 (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product  
18 Management, Treasury, and Regulatory Departments.

19

20 **Q. Have you previously testified in regulatory proceedings?**

21 A. Yes, since joining The Columbia Group, Inc., I have testified in over 350 regulatory

1 proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas,  
2 Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode  
3 Island, South Carolina, Vermont, Washington, West Virginia and the District of Columbia.  
4 These proceedings involved gas, electric, water, wastewater, telephone, solid waste, cable  
5 television, and navigation utilities. A list of dockets in which I have filed testimony since  
6 January 2008 is included in Appendix A.

7  
8 **Q. What is your educational background?**

9 A. I received a Master of Business Administration degree, with a concentration in Finance, from  
10 Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in  
11 Chemistry from Temple University.

12  
13 **II. PURPOSE OF TESTIMONY**

14 **Q. What is the purpose of your testimony?**

15 A. On April 29, 2014, Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy  
16 (“Black Hills Kansas” or “Company”) filed an Application with the Kansas Corporation  
17 Commission (“KCC” or “Commission”) seeking a rate increase of approximately \$7.28  
18 million for its natural gas operations in Kansas. Black Hills Kansas serves 111,000 natural  
19 gas customers in 64 communities in Kansas. The Company’s Application is based on a base  
20 rate increase of \$9.51 million, offset by rebasing \$2.23 million that is currently being  
21 collected through the Gas System Reliability Surcharge (“GSRS”). The Company’s request

1 results in a base rate increase of approximately 21% to base distribution rates and an overall  
2 revenue increase of approximately 6.6% to adjusted Test Year operating revenue.

3 In addition to the proposed rate increase, Black Hills Kansas is also seeking  
4 authorization to implement: 1) a regulatory asset related to a proposed Future Track  
5 Workforce Development Program (“Future Track”), 2) a tracking mechanism for pension and  
6 other post-employment benefit (“OPEB”) costs, 3) a Bypass Revenue Rider (“BRR”) credit  
7 mechanism for revenues received from certain customers acquired from Anadarko Natural  
8 Gas Company (“Anadarko”), and 4) an Accelerated Pipeline Replacement Rider (“APRR”).

9 The requested increase would result in an average monthly increase for residential  
10 customers of approximately \$4.17 per month. This is the first base rate case filed by Black  
11 Hills Kansas since the acquisition of the gas assets of Aquila, Inc., in July 2008.

12 The Columbia Group, Inc., was engaged by the State of Kansas, Citizens’ Utility  
13 Ratepayer Board (“CURB”) to review the Company’s Application and to provide  
14 recommendations to the KCC regarding the Company’s revenue requirement claim. I am  
15 also providing testimony on the Company’s proposed APRR as well as its other proposed  
16 trackers and rider mechanisms. In addition to my testimony, CURB is sponsoring the  
17 testimony of three other witnesses in this case. Dr. J. Randall Woolridge is submitting  
18 testimony on cost of capital and capital structure issues, Michael Majoros is submitting  
19 testimony on depreciation policy issues, and Brian Kalcic is submitting testimony with regard  
20 to class cost of service and rate design issues.

1 **Q. What are the most significant issues in this rate proceeding?**

2 A. The most significant accounting issues driving Black Hills Kansas's rate increase request are:  
3 1) the Company's claim for a return on equity of 10.60%, 2) return requirements associated  
4 with plant-in-service additions since the last base rate case, 3) return requirements associated  
5 with proposed post-test year plant additions, 4) weather normalization adjustments, 5)  
6 proposed salary and wage adjustments and associated benefits, and 6) the proposed Future  
7 Track program costs.

8  
9 **III. SUMMARY OF CONCLUSIONS**

10 **Q. What are your conclusions concerning the Company's revenue requirement and its  
11 need for rate relief?**

12 A. Based on my analysis of the Company's filing and other documentation in this case, my  
13 conclusions are as follows:

- 14 1. The twelve-month period ending December 31, 2013, is an acceptable Test Year to  
15 use in this case to evaluate the reasonableness of the Company's claim.
- 16 2. Black Hills Kansas has a pro forma rate base of \$128,575,447, as shown in Schedule  
17 ACC-3.
- 18 3. The Company has pro forma operating income at present rates of \$7,637,259, as  
19 shown in Schedule ACC-9.
- 20 4. Based on Dr. Woolridge's recommended capital structure and capital cost rates,  
21 Black Hills Kansas has an overall cost of capital of 6.59%, as shown in Schedule

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ACC-2.

5. Black Hills Kansas has a pro forma revenue deficiency \$1,384,271, as shown on Schedule ACC-1. This is in contrast to the Company's claimed deficiency of \$7,278,700.
6. The pro forma revenue deficiency of \$1,384,271 includes a base rate increase of \$3,613,683, partially offset by rebasing the GSRS revenues of \$2,229,412, as shown in Schedule ACC-1.
7. The Company is currently collecting an Ad Valorem surcharge of \$2,240,959 annually related to property tax expense. These revenues have not been included in the Company's revenue requirement although the associated costs are included in the filing. The Ad Valorem surcharge will be reduced after new rates take effect. Once the Ad Valorem surcharge is eliminated, the net impact on ratepayers of my revenue requirement recommendation will be a net decrease of \$856,688 (\$1,384,271 - \$2,240,959).
8. The KCC should approve the Company's request to establish tracker mechanisms for its pension and OPEB costs.
9. The KCC should deny the Company's proposed BRR credit mechanism for revenues received from certain Anadarko customers. Instead, revenues from Anadarko customers should be included as base rate revenue in the calculation of the Company's distribution base rate deficiency. The KCC should reject the Company's request to implement a regulatory asset to recover recruiting, training, and payroll

costs associated with the Future Track Program.

10. The KCC should deny the Company’s request for the APRR.

**IV. COST OF CAPITAL AND CAPITAL STRUCTURE**

**Q. What is the Company proposing for the cost of capital and capital structure in this case?**

A. The Company’s filing is based on an overall cost of capital of 7.52%, which includes the following capital structure and cost rates, as shown in Section 7 of its Application:

	Percentage	Cost	Weighted Cost
Common Equity	50.34%	10.60%	5.33%
Long-Term Debt	49.66%	4.40%	2.19%
Total	100.00%		7.52%

**Q. Is CURB recommending any adjustments to this capital structure or cost of capital?**

A. As discussed in the testimony of Dr. Woolridge, CURB is not recommending any adjustment to the Company’s proposed capital structure. However, CURB is recommending that the KCC authorize a return on equity of 8.75% for Black Hills Kansas.

**Q. What is the overall cost of capital that CURB is recommending for Black Hills Kansas?**

A. As shown on Schedule ACC-2, CURB is recommending an overall cost of capital for Black Hills Kansas of 6.59%, based on the following capital structure and cost rates:



	Percentage	Cost	Weighted Cost
Common Equity	50.34%	8.75%	4.40%
Long-Term Debt	49.66%	4.40%	2.19%
Total	100.00%		6.59%

1

2

Please see the testimony of Dr. Woolridge for a discussion of CURB's cost of equity recommendation.

3

4

5

**V. RATE BASE ISSUES**

6

**A. Utility Plant-in-Service**

7

**Q. What Test Year did the Company utilize to develop its rate base claim in this proceeding?**

8

9

A. The Company selected the Test Year ending December 31, 2013.

10

11

**Q. Did the Company include any post-Test Year plant in its rate base claim?**

12

A. Yes, Black Hills Kansas included \$5.47 million of post-Test Year plant in its rate base claim.

13

The Company stated that it "included additional capital spending related to specific capital projects that will be completed and placed in service by June 30, 2014." In addition, the Company included \$546,195 in rate base related to a new Gas Management System.

14

15

16

17

**Q. Are you recommending any adjustment to the Company's utility plant-in-service claim?**

18

19

A. Yes, I am recommending two adjustments. First, I am recommending an adjustment to

1 revise the Company's claim for post-Test Year plant to reflect actual plant-in-service at June  
2 30, 2014. Second, I am recommending that the Commission deny the Company's claim for  
3 inclusion of the new Gas Management System in rate base.

4  
5 **Q. As a matter of policy, do you believe that post-Test Year plant should be included in**  
6 **rate base?**

7 A. No, I do not. Since Kansas ratemaking utilizes an historic Test Year, I believe that it is  
8 preferable to value all elements of a utility's rate base claim using either an end of Test Year  
9 valuation or an average Test Year valuation, depending on the particular rate base  
10 component. Historically, most regulatory commissions excluded from rate base the  
11 expenditures for plant projects that were not yet completed and in-service by the end of the  
12 Test Year; utilities booked such uncompleted projects as Construction Work in Progress  
13 ("CWIP"). Since utilities generally were also able to book an allowance for funds used  
14 during construction or AFUDC on plant while it was being constructed, utilities were  
15 compensated for the financing costs of plant projects during the construction period and  
16 CWIP was generally excluded from rate base.

17 However, the Kansas legislature has enacted a statute to provide for the inclusion of  
18 CWIP in rate base in certain circumstances.<sup>1</sup> K.S.A. 66-128 provides guidance to the KCC  
19 for determining the value of the property to be included in rate base. The statute generally  
20 requires that "property of any public utility which has not been completed and dedicated to

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<sup>1</sup> I am not an attorney and my discussion of the CWIP statute is not intended as a legal interpretation of that statute,

1 commercial service shall not be deemed to be used and required to be used in the public  
2 utility's service to the public."

3 The most recent version of the statute provides that certain property "shall be deemed  
4 to be completed and dedicated to commercial service" under certain circumstances.  
5 Specifically, K.S.A. 66-128(b)(2) provides that,

6 Any public utility property described in subsection (b)(1) shall be deemed to  
7 be completed and dedicated to commercial service if: (A) construction of the  
8 property will be commenced and completed in one year or less; (B) the  
9 property is an electric generation facility that converts wind, solar, biomass,  
10 landfill gas or any other renewable source of energy; (C) the property is an  
11 electric generation facility or addition to an electric generation facility, which  
12 facility or addition to a facility is placed in service on or after January 1,  
13 2001; or (D) the property is an electric transmission line, including all towers,  
14 poles and other necessary appurtenances to such lines, which will be  
15 connected to an electric generation facility.  
16

17 In addition, several years ago, the KCC Staff began including post-Test Year plant in  
18 its recommended pro forma rate base in utility rate proceedings. Staff has generally included  
19 plant that is completed and in service prior to the filing of testimony by Staff and intervenors.  
20 Therefore, while I continue to believe that including CWIP and post-Test Year plant in rate  
21 base is not the preferred ratemaking practice because it unjustly shifts risk from shareholders  
22 to ratepayers, in evaluating the Company's utility plant-in-service claim in this case I took  
23 into account both the CWIP statute and Staff's practice of including certain post-Test Year  
24 plant in rate base, which has been accepted by the KCC in some cases.  
25

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but rather provides my understanding of the statute from a ratemaking perspective. (Get whole footnote on page of

1 **Q. What post-Test Year plant-in-service have you included in your pro forma rate base**  
2 **recommendation?**

3 A. Black Hills Kansas has not included any CWIP in its rate base claim, even though it is  
4 permitted by statute to include CWIP in rate base under certain circumstances. Consistent  
5 with the position taken by Staff in several recent cases to include certain post-Test Year plant  
6 in rate base, I recommend that Black Hills Kansas be permitted to include some of its post-  
7 Test Year plant in rate base. In developing my pro forma rate base recommendation, I have  
8 included actual plant-in-service at June 30, 2014. This plant balance therefore reflects both  
9 utility plant-in-service additions through the end of the Test Year as well as retirements  
10 through that date. My adjustment is shown in Schedule ACC-4.

11  
12 **Q. Mr. Kiel recommends on page 6 of his testimony that “any capital project completed**  
13 **after June 30, 2014 and prior to the conclusion of Staff’s audit be included in rate**  
14 **base.” How do you respond?**

15 A. Under the current procedural schedule, I would oppose any further update to the Company’s  
16 utility plant-in-service claim. Plant balances as of a certain date are generally not available  
17 until sometime after the closing date, due to delays in closing a utility’s books at the end of  
18 the month. Given the time required to prepare our testimony, it is unrealistic to assume that  
19 CURB (and other intervenors in base rate cases) should be able to include plant additions  
20 right up to the time they file testimony. In this case, the June 30, 2014, balances were

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footnote number if possible).

1 provided in late July. Further updates would not have provided sufficient time for CURB to  
2 prepare its testimony given the current procedural schedule.

3  
4 **Q. Is the Company's recommendation for a further update an attempt to continue the**  
5 **expansion of the so-called "Test Year"?**

6 A. Yes, I believe that it is. In addition, I also believe that Staff's recent practice to update post-  
7 Test Year utility plant-in-service provides a tremendous benefit to utilities without any  
8 commensurate benefit to ratepayers. Many utilities have argued over the past few years that  
9 regulatory lag is harming shareholders and that regulatory commissions should adopt  
10 ratemaking mechanisms to address these concerns. Most regulatory commissions have  
11 carefully considered any Test Year policy changes only after hearing from all parties and  
12 considering the negative impacts on ratepayers. In Kansas, however, utilities have already  
13 successfully extended the Test Year without even requesting a formal policy change, and  
14 generally without any consideration or input of parties other than Staff.

15 Therefore, while I have included actual post-Test Year additions through June 30,  
16 2014 in my pro forma rate base, I would oppose any attempt by the Company to further  
17 extend the Test Year by any further update.

18  
19 **Q. Have you made any other adjustments to the Company's utility plant-in-service claim?**

20 A. Yes, I am recommending that the Commission deny the Company's request to include  
21 \$546,195 in rate base for a new Gas Management System.

1

2 **Q. Please provide a brief summary of the Company's claim.**

3 A. According to the testimony of Jodi Culp at page 2, the current GasTrack system has been  
4 used for many years

5 ...to handle the core functions of contract management, deal capture, gas scheduling and  
6 pipeline nominations for delivery of purchases to BHC's general system utility customers, as  
7 well as accepting third-party nominations for Transport and Brokered customers. GasTrack  
8 also captures and stores measurement data, weather, pricing, pipeline storage and  
9 transportation capacity information, in addition to providing related reporting functionality,  
10 which allows Black Hills Utility Holdings ("BHUH") to reliably serve and manage the  
11 natural gas requirements of its customers."  
12

13 Ms. Culp went on to state that the current system was based on an aged technology with  
14 software that was no longer supported, leaving the Company susceptible to business risks in  
15 the event of system failure. Another problem with the current GasTrack system is that it  
16 does not capture financial hedging activity, which is currently recorded in a series of  
17 spreadsheets developed in-house.

18 The Company states that it investigated several options including maintaining the  
19 status quo, building its own in-house software, or seeking a commercial software solution.  
20 BHUH chose the third option and in June 2013, BHUH issued a Request for Information  
21 ("RFI") to begin the process of selecting a vendor and software product. According to the  
22 response to CURB-75, OpenLink was subsequently selected as the Vendor and Endur was  
23 selected as the software system. The Company has included \$546,195 in capital costs and  
24 \$94,824 in operating and maintenance expense associated with the new system. This  
25 represents approximately 19.3% of the total costs for the new system, which is the allocation

1 percentage to Black Hills Kansas.

2  
3 **Q. What is the basis for your recommendation that the KCC should deny the Company's**  
4 **claimed rate base adjustment associated with the new Gas Management System?**

5 A. My recommendation is based on the fact that this project is not complete and is not in  
6 service. Moreover, it appears that the majority of the functionality associated with the new  
7 system will not be available until 2015. As discussed in the Business Case update provided  
8 in the Confidential response to CURB-140, the implementation of the new Gas Management  
9 System will require significantly more effort, and significantly more time, than initially  
10 thought:

- 11 • There is a great deal of business functionality that has been developed over the years  
12 within GasTrack, GTO and Flexbill. These are tightly integrated with each other.  
13 And much of this unique functionality is not provided within the Endur software  
14 and is not best suited to be custom built within the Endur environment. So the  
15 result is much more custom development work required to accomplish our goal of  
16 replacing GasTrack/GTO and hedging spreadsheets.
- 17  
18 • The original Endur implementation timeframe was too optimistic. And we [sic] the  
19 late start we are getting in 2014 to the implementation, we were not going to  
20 achieve production go-live timeframe of October 2014 (before heating season).  
21 With the customer development work and the regular Endur software  
22 implementation, the go-live would be extended to early summer 2015.

23  
24 The result of this planning is an anticipated production go-live of the financial  
25 (hedging) functionality in early October 2014 and the rest of the Endur software and  
26 custom applications on June 1, 2015. The software license agreement has been  
27 signed with an opt-out clause included. (Note: The Company has waived  
28 confidential treatment of the quoted passage).

29  
30 Given that the new Gas Management System will not begin to serve customers until well  
31 after the end of the Test Year in this case, it would be premature for the KCC to include it in

1 rate base in this case. Accordingly, I recommend that the KCC make an adjustment to  
2 remove the \$546,195 in capital costs associated with the Gas Management System from the  
3 Company's rate base. My adjustment is shown in Schedule ACC-5.

4  
5 **Q. Do you disagree with the Company's decision to implement a new Gas Management**  
6 **System?**

7 A. No, I am not taking issue with the Company's contention that a new system is required nor  
8 am I questioning its choice of vendor and software. The Company may very well have a  
9 need for a new Gas Management System and the selected system may be the best option for  
10 the Company and its ratepayers. However, there is no reason to provide special ratemaking  
11 treatment for these costs. The Company is continuously adding capital projects, just as other  
12 plant is being retired. It is the responsibility of the Company management to see that  
13 sufficient investment is made in the utility to ensure the continued provision of safe and  
14 reliable utility service. However, the Gas Management System will not be in-service until  
15 well after the Test Year in this case. In fact, the majority of the functionality will not be in-  
16 service until almost two years after the end of the Test Year. In addition, there was no CWIP  
17 related to the Gas Management Project at December 31, 2013, the end of the Test Year in  
18 this case.



1           **B.     Accumulated Depreciation**

2           **Q.     How did the Company determine its rate base claim for accumulated depreciation?**

3           A.     As shown in Section 3, Schedule 2, page 1 of the Company's Application, Black Hills  
4           Kansas included three adjustments to accumulated depreciation. First, the Company made an  
5           adjustment to reflect additions to the depreciation reserve associated with annualizing  
6           depreciation expense based on plant at the end of the Test Year. Second, the Company  
7           included an adjustment to reflect additions to the reserve associated with its post-Test Year  
8           plant additions through June 30, 2014. Third, the Company made an adjustment to reflect a  
9           reassignment of plant and associated accumulated depreciation between regulated and non-  
10          regulated activities.

11  
12          **Q.     Are you recommending any adjustment to the Company's claim for accumulated**  
13          **depreciation?**

14          A.     Yes, I am recommending one adjustment. Since I have included an adjustment to reflect  
15          actual plant-in-service at June 30, 2014, it is necessary to make a corresponding adjustment  
16          to reflect the depreciation reserve as of that date as well. This is because accumulated  
17          depreciation is directly related to the amount and timing of plant additions as well as plant  
18          retirements. Therefore, an adjustment to utility plant-in-service should be accompanied by a  
19          corresponding adjustment to accumulated depreciation. My adjustment to reflect actual  
20          accumulated depreciation at June 30, 2014 is shown in Schedule ACC-6.

1           **C.     Accumulated Deferred Income Taxes**

2     **Q.     Did you also make an adjustment to the accumulated deferred income tax reserve?**

3     A.     Yes, I did. Accumulated deferred income taxes relate to timing differences between when  
4           certain taxes are actually paid and when such taxes are recognized for ratemaking purposes.  
5           The most common source of deferred income taxes relates to differences in the treatment of  
6           depreciation expense. For example, ratemaking utilizes straight-line depreciation while  
7           depreciation expense for tax purposes is generally based on some accelerated methodology.  
8           This different treatment results in timing differences between when certain costs, and the  
9           associated income tax impacts, are reflected in the Company's tax return and when these  
10          costs are reflected in utility rates. Since depreciation expense is the most significant  
11          contributor of deferred income taxes, it is reasonable to update accumulated deferred income  
12          taxes to the actual balance at June 30, 2014, consistent with my recommended utility plant-  
13          in-service and depreciation reserve updates. Therefore, at Schedule ACC-7, I have made an  
14          adjustment to reflect the actual June 30, 2014 balance for accumulated deferred income  
15          taxes.

16  
17           **D.     Cash Working Capital**

18     **Q.     What is cash working capital?**

19     A.     Cash working capital is the amount of cash that is required by a utility in order to cover cash  
20          outflows between the time that revenues are received from customers and the time that  
21          expenses must be paid. For example, assume that a utility bills its customers monthly and

1 that it receives monthly revenues approximately 30 days after the midpoint of the date that  
2 service is provided. If the Company pays its employees weekly, it will have a need for cash  
3 prior to receiving the monthly revenue stream. If, on the other hand, the Company pays its  
4 interest expense quarterly, it will receive these revenues well in advance of needing the funds  
5 to pay interest expense.  
6

7 **Q. Do companies always have a positive cash working capital requirement?**

8 A. No, they do not. The actual amount and timing of cash flows dictate whether or not a utility  
9 requires a cash working capital allowance. Therefore, one should examine actual cash flows  
10 through a lead/lag study in order to accurately measure a utility's need for cash working  
11 capital.  
12

13 **Q. Did the Company prepare a lead/lag study in this case?**

14 A. No, it did not. In this case, Black Hills Kansas used the "one-eighth" formula method,  
15 resulting in a cash working capital claim of \$3.6 million. The Company then made some  
16 additional adjustments to reflect the working capital provided by accrued taxes and interest,  
17 resulting in a net cash working capital claim of \$724,090.  
18

19 **Q. Are you recommending any adjustments to the Company's cash working capital claim?**

20 A. Yes, I am recommending that the Company's cash working capital requirement be set at \$0.  
21

1 **Q. What is the basis for your recommendation?**

2 A. The last lead/lag study undertaken by the Company was provided in Docket No. 00-UTCG-  
3 336-RTS, well before the acquisition of the Aquila assets by Black Hills. In that case, the  
4 Company claimed a negative cash working capital requirement of (\$822,626). Aquila did  
5 not provide a lead/lag study in the last two gas base rate cases filed prior to the acquisition by  
6 Black Hills.

7           Given the fact that the Company filed a negative cash working capital claim in the  
8 last gas base rate case for which a lead/lag study was provided, there is evidence to suggest  
9 that a lead/lag study performed for the gas utility could result in a negative cash working  
10 capital requirement in this case. However, the formula method used by Black Hills Kansas  
11 in its filing will never yield a negative result because it does not address specific cash flows.  
12 While I understand that some regulatory commissions have accepted the use of the formula  
13 method in certain cases, that method should be rejected here, given evidence that the  
14 Company's cash working capital requirement is negative. In addition, given the size and  
15 complexity of Black Hills Kansas, the KCC should require that any claim for a cash working  
16 allowance be supported with a lead/lag study. Accordingly, at Schedule ACC-8, I have made  
17 an adjustment to reflect a \$0 cash working capital requirement.

18

1           **E.     Summary of Rate Base Adjustments**

2       **Q.     What is the impact of all of your rate base adjustments?**

3       A.     My recommended adjustments reduce the Company's rate base claim from \$131,193,233, as  
4           reflected in its filing, to \$128,575,447, as summarized on Schedule ACC-3.

5  
6       **VI.    OPERATING INCOME ISSUES**

7           **A.     Pro Forma Revenue**

8       **Q.     How did the Company determine its pro forma revenue claim in this case?**

9       A.     Black Hills Kansas began with its actual Test Year revenues. The Company then made an  
10           adjustment to normalize revenues for normal weather. It also made adjustments to eliminate  
11           the over-collection recorded on the Weather Normalization Adjustment ("WNA") and to  
12           eliminate Ad Valorem Surcharge revenue. Finally, Black Hills Kansas made an adjustment  
13           related to revenues from customers acquired from Anadarko. The Anadarko adjustment will  
14           be discussed in more detail below.

15                   The Company's revenue claim also includes the Test Year actual revenues for  
16           forfeited discounts, miscellaneous service revenues, and other gas revenues.

17  
18       **Q.     Are you recommending any adjustment to the Company's pro forma revenue claim?**

19       A.     Yes, I am recommending one adjustment. The Company's pro forma revenue claim is based  
20           on actual average customer counts during the Test Year, except for customers acquired from  
21           Anadarko. Black Hills Kansas did not make any adjustment to annualize its pro forma

1 revenue to reflect customer growth that occurred during the Test Year. I recommend that the  
2 KCC adopt a revenue annualization adjustment for residential customers.

3  
4 **Q. Why do you believe that such an adjustment is necessary?**

5 A. Annualization adjustments are frequently made to reflect the fact that customers typically  
6 increase from year-to-year. This is especially true of residential customers. In its  
7 workpapers, the Company provided information regarding the number of customers, by  
8 customer class, over the past few years. As shown in that exhibit, the average number of  
9 residential customers increased from 98,131 for the twelve months ending December 31,  
10 2013, to 98,879 in the Test Year—an increase of 748 customers. The full impact of this  
11 growth is not reflected in the Company’s pro forma revenue claim, due to the fact that Black  
12 Hills Kansas based its claim on actual average customers during the Test Year. Therefore, I  
13 have made an adjustment to annualize customer growth to reflect a full year of revenues for  
14 customers added during the Test Year.

15  
16 **Q How did you quantify your adjustment?**

17 A. As shown on Schedule ACC-10, I have reflected additional revenue from 374 customers.  
18 This assumes that the 748 customers added in the Test Year were added throughout the year.  
19 Therefore, on average, the Test Year only reflects revenues from one-half, or 374 customers.  
20 My adjustment increases revenues to reflect average margins for the remaining 374  
21 customers, all of whom were receiving service by December 31, 2013, the end of the Test

1 Year. To quantify my adjustment, I utilized the average margin revenue per customer of  
2 \$312.46 as reported by Black Hills Kansas. This adjustment resulted in total incremental  
3 revenue of \$116,861. I then made adjustments to reflect an increase in uncollectible expense  
4 and the income tax effect of the additional revenue.

5  
6 **Q. Has the number of residential customer traditionally increased each year?**

7 A. Yes, the number of average residential customers has increased in each of the past four years  
8 for which the Company provided data, as shown in the Company's workpapers. In addition,  
9 the number of commercial customers have also grown each year over this period. The  
10 number of industrial customers grew in 2011 and in the Test Year, but the Company lost  
11 industrial customers in 2012. Overall, the average number of customers has increased each  
12 year over the four-year period. Annualizing revenues based on customers as of the end of the  
13 Test Year is especially appropriate in this case, given the fact that the Company has included  
14 post-Test Year plant additions in its rate base claim.

15  
16 **Q. Why did you limit your adjustment to the residential class?**

17 A. Since commercial and industrial customers also grew in the Test Year, it would be  
18 appropriate to make an annualization adjustment to reflect revenues based on customers at  
19 December 31, 2013, for these customer classes as well. However, these adjustments are  
20 more difficult to quantify, especially for industrial customers, given the significant variation  
21 in usage among members of these classes. Therefore, to be conservative, I limited my

1 adjustment to the residential class.

2  
3 **Q. How did the Company reflect revenues from the Anadarko customers that were**  
4 **acquired by Black Hills Kansas in the fourth quarter, 2013?**

5 A. As described in the testimony of Mr. Meyer, Black Hills Kansas has included in its revenue  
6 requirement calculation revenues from three Anadarko customers that the Company believes  
7 are unlikely to bypass its system. Adjustment IS-5 reflects \$786,633 in revenue from  
8 Anadarko customers. Black Hills Kansas is proposing that revenue from the remaining three  
9 Anadarko customers be excluded from its base distribution revenue requirement. Instead, the  
10 Company proposes that any revenue received from these customers be credited back to  
11 ratepayers through a Bypass Revenue Rider ("BRR"). Under the Company's proposal,  
12 revenues from these three customers (less gas costs) would be credited to full margin  
13 customers based on the allocations used for revenue credits for negotiated large volume and  
14 irrigation customers. This would result in an allocation of 68.17% to residential customers,  
15 of 10.59% to small commercial customers, of 9.37% to small volume customers, and of  
16 11.87% to large volume customers.

17  
18 **Q. Are you recommending any adjustment to the revenues associated with the Anadarko**  
19 **customers?**

20 A. Yes, I am recommending two adjustments. First, I am recommending that all Anadarko  
21 revenues be included in the Company's revenue requirement calculation. The Company



1 proposed the acquisition on the basis that there would be benefits to ratepayers. Now, less  
2 than one year after the acquisition was approved, Black Hills Kansas states that  
3 approximately 50% of its revenue is at risk, that it needs to provide discounts in order in to  
4 retain customers, and that the risk of revenue losses should be transferred from shareholders  
5 to ratepayers. The Company is also now stating that the pipeline acquired from Anadarko  
6 will require greater investment than the amount estimated in Docket 13-BHCG-509-ACQ.  
7 At the same time, Black Hills Kansas is also proposing that ratepayers pay for the costs  
8 associated with the acquisition through an adjustment in this case to amortize deferred costs.

9 If the Anadarko revenue was at risk, perhaps Black Hills Kansas should not have  
10 acquired this investment. Accordingly, I recommend that all revenues associated with the  
11 Anadarko customers be included in the pro forma revenues reflected in the Company's  
12 revenue requirement. My adjustment is shown in Schedule ACC-11.

13  
14 **Q. What is your second Anadarko revenue adjustment?**

15 A. Given the limited history with these customers and the stated threat of bypass, I am not  
16 opposed to using the most recent revenues for the Anadarko customers. Therefore, at  
17 Schedule ACC-11, I have quantified my Anadarko revenue adjustment using the actual  
18 margin revenue for the twelve months ending June 30, 2014. I have also made  
19 corresponding adjustments for the associated uncollectible expense and income taxes.

20

1           **B.     Salaries and Wage Expense**

2           **Q.     How did the Company develop its salary and wage claim in this case?**

3           A.     Black Hills Kansas developed its payroll claim by annualizing actual salary and wages at  
4           March 10, 2014. According to the testimony of Ms. Stichler, the Company also included  
5           payroll costs for “vacancies in the process of being filled” and other payroll-related costs  
6           such as standby, overtime, and callout pay. The Company has included a payroll adjustment  
7           of \$1,298,879, or 9.6% over its actual Test Year costs. Approximately 77.96% of this  
8           adjustment was included in Black Hills Kansas’ pro forma expense claim, based on the  
9           Company’s expense ratio.<sup>2</sup>

10                     The Company’s payroll adjustment also includes an associated benefits adjustment,  
11           based on a benefits rate of 39.55%, and a payroll tax adjustment based on a payroll tax rate of  
12           8.29%.

13  
14           **Q.     Are you recommending any adjustment to the Company’s payroll expense claim?**

15           A.     Yes, I am recommending that costs associated with vacant positions be eliminated. The  
16           Company included payroll costs of \$518,688 for vacant positions in its claim. This claim  
17           includes vacant positions at Black Hills Kansas as well as vacant positions in other entities  
18           that are allocated, in part, to Black Hills Kansas.

19                     It is normal and customary for companies to have unfilled positions at any given time  
20           as a result of terminations, transfers, and retirements. As shown in the response to CURB-

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<sup>2</sup> Approximately 22.04% of payroll costs are capitalized.

1 61, Black Hills Kansas has consistently had vacancies, many of which took several months to  
2 fill. In addition, as noted in that response, many vacancies are filled with internal employees,  
3 which often creates a succession of backfilling and additional requisitions. If utility rates are  
4 set based on a full complement of employees, and if these employee positions remain vacant,  
5 then ratepayers will have paid rates that are higher than necessary, to the benefit of  
6 shareholders. Therefore, when setting rates, I recommend that the Commission consider the  
7 fact that, at any given time, positions are likely to be vacant. At Schedule ACC-12, I have  
8 made an adjustment to eliminate the payroll costs for vacant positions included in the  
9 Company's salary and wage claim.

10  
11 **C. Incentive Compensation Expense**

12 **Q. Please describe the Company's incentive compensation programs.**

13 A. Black Hills Kansas has several incentive compensation plans as described in the testimony of  
14 Ms. Patterson. All employees are eligible to participate in the Annual Incentive Plan  
15 ("AIP"). The target percentage incentive differs, depending on pay grade. Non-union  
16 employees have a target of 3% of covered wages, while targets for non-union employees  
17 range from 6% for pay grades 3-9 up to 15% for pay grade 19.<sup>3</sup> In describing the award  
18 criteria on page 9 of her testimony, Ms. Patterson downplays the extent to which financial  
19 benchmarks are used to make incentive payment awards. Ms. Patterson suggests that only  
20 25% of these awards are related to financial goals, specifically regarding the earnings-per-

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3 Per the response to CURB-16.

1 share target addressed on page 10 of her testimony. However, a review of the actual  
2 benchmarks provided in response to CURB-86 makes it clear that 60% of the award is  
3 weighted to financial indicators and only 40% is based on operational goals such as safety,  
4 customer satisfaction, and reliability. While 25% is based on the earnings-per-share criteria,  
5 an additional 25% is based on operating income of the gas utilities, and another 10% is based  
6 on the aggregate costs of Shared Services.

7 Pay grades 20 and above participate in the annual Short-term Incentive Plan (“STIP”)   
8 program. The vast majority of awards under the STIP are based solely on earnings-per-share  
9 award criteria. There are some individuals that receive awards that have other components in  
10 addition to earnings per share, but these are also largely based on other financial indicators  
11 such as operating income, or margins. Finally, there are a few awards that do utilize a  
12 customer service or reliability component, but for all awards the most significant benchmarks  
13 are financial.

14 In addition to the AIP and STIP, the Company has a long-term incentive program  
15 (“LTIP”) offered “on a limited basis to key employees....”.<sup>4</sup> Awards made under the LTIP  
16 consist of Performance Share awards and Restricted Stock. The Performance Share awards  
17 are based on total shareholder return (“TSR”) compared with TSR of a peer group. Thus,  
18 performance share awards depend upon not only on shareholder return at Black Hills but also  
19 on shareholder return at other unrelated companies. In the Test Year, the TSR for Black  
20 Hills Corporation ranked in the 94<sup>th</sup> percentile of the peer group, making it one of the most

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4 Testimony of Ms. Patterson, page 17.

1 profitable companies for shareholders in the group. This resulted in a maximum payout of  
2 175% of the targeted award. It is interesting to note that the Company's stock price increased  
3 from \$36.34 to \$52.51 during the Test Year, according to the response to CURB-133.  
4 Therefore, incentive payments based on return to shareholders did extraordinarily well.  
5 Restricted Stock Awards are discretionary incentives that vest over a three-year period.  
6

7 **Q. In addition to incentive compensation awards, have Black Hills Kansas employees also**  
8 **received regular annual salary and wage increases?**

9 A. Yes, they have. As shown in the response to CURB-9, Black Hills Corporation and Black  
10 Hills Kansas both have consistently provided annual salary and wage increases to their  
11 employees. Black Hills Kansas non-union employees received increases of 3.1% in the Test  
12 Year and 3.2% in 2014, while union employees received increases of 2.4% in the Test Year  
13 and 3.0% in 2014.

14 Moreover, in the responses to CURB-82 and CURB-83, the Company provided the  
15 average base compensation by pay grade over each of the past three years as well as the  
16 average incentive payment over this period. This information was provided for both union  
17 and non-union employees. Based on these responses, it appears that the Company's average  
18 base salaries are competitive, even if the incentive awards are not considered. As shown in  
19 the response to CURB-83, average base compensation included in the Company's claim for  
20 non-union employees ranges from \$35,332 for the lowest pay grade at Black Hills Kansas up  
21 to \$113,135. The majority of Black Hills Kansas direct employees are in pay grades 9 and

10, which have average annual salaries of \$52,627 and \$55,447. In addition, the average incentive awards for these pay grades in the Test Year were \$4,533 and \$5,910 respectively. Union employees have annual salaries ranging from \$52,437 to \$70,408, depending on pay scale. In addition, the average union incentive payment in the Test Year was \$1,942.

**Q. What are Black Hills Kansas’s claims in this case for incentive compensation awards costs?**

A. Following are the Test Year costs incurred related to the various incentive programs:

	AIP	Restricted Stock	Performance Shares	STIP
Total Costs	\$1,126,045	\$276,552	\$396,647	\$449,992
Regulated O&M	\$884,680	\$265,490	\$381,140	\$431,992

Officer awards skyrocketed in the Test Year compared to prior years. While Black Hills Kansas incurred officer incentive costs of \$215,763 in 2011 and \$134,786 in 2012, the Test Year includes \$570,943 in officer incentive costs allocated to Black Hills Kansas.<sup>5</sup> That is more than a fourfold increase from 2011 costs.

**Q. Do the Company’s incentive plans focus on parameters that directly benefit ratepayers?**

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<sup>5</sup> Per the response to CURB-17.

1 A. No, they do not. The Company's incentive compensation awards are heavily weighted  
2 toward financial benchmarks. The AIP awards are approximately 60% weighted toward  
3 financial goals. The performance share awards are 100% dependent on TSR (total  
4 shareholder returns), with the Company's performance benchmarked against a peer group  
5 composed of other utilities. The STIP awards are very heavily weighted toward financial  
6 benchmarks with earnings per share at Black Hills Corporation being the sole criteria in  
7 many cases. And the restricted share awards are issued on a discretionary basis based on pay  
8 grade, but without any benchmarks related to customer-oriented objectives.

9  
10 **Q. Do you believe that the incentive compensation program costs claimed by Black**  
11 **Hills Kansas should be passed through to ratepayers?**

12 A. I believe that a large portion of these costs should not be passed through to ratepayers.  
13 Specifically, I am recommending that the Commission disallow the portion of program costs  
14 that are based on financial objectives, especially shareholder return. Moreover, all of these  
15 awards are tied to financial benchmarks that do not necessarily result in ratepayer benefit.  
16 These awards were designed as incentives to enhance shareholder value. If the Company  
17 wants to reward employees based, in whole or in part, on financial results then shareholders  
18 should be willing to absorb these costs. This recommendation will require the Board of  
19 Directors to establish incentive compensation plans that shareholders are willing to finance.  
20 As long as ratepayers are required to pay the costs of these incentive plans, then there is no  
21 incentive for management to control these costs. This is especially true since the officers and

1 executives of the Company are primary beneficiaries of such plans. Therefore, I recommend  
2 that the Commission deny the Company's claim for incentive compensation costs.

3  
4 **Q. Doesn't the Company use a compensation consulting firm to benchmark its**  
5 **compensation?**

6 A. Yes, it does. Black Hills Kansas has utilized Towers Watson, Aon Water, Mercer, and others  
7 to review its compensation practices and provide information on compensation at other  
8 companies to use as a benchmark. While I appreciate the Company's desire to be  
9 competitive with other firms in its industry, the use of benchmarking, which has intensified  
10 over the past several years as publicly-traded companies put greater effort into justifying their  
11 executive compensation costs, does not necessarily result in just and reasonable  
12 compensation costs. Instead of basing compensation on the specific circumstances at the  
13 utility in question, benchmarking has contributed to spiraling compensation costs, especially  
14 at the executive level.

15  
16 **Q. Why do you believe that the use of benchmarking results in spiraling executive**  
17 **compensation costs?**

18 A. As noted above, compensation studies compare the subject company's compensation to  
19 compensation in a broad range of other firms. Companies usually argue that they must  
20 compete against other companies for good employees, and do not want to find themselves  
21 in the lower half of the benchmark group. Thus, companies that fall below the 50th percentile



1 of other companies' compensation levels react by increasing their employees' compensation  
2 – which causes the overall level of compensation for the comparison group to increase.  
3 Inevitably, then, each successive compensation study will show that the subject company is  
4 again compensating below the benchmark. Therefore, benchmarking results in ever-  
5 increasing compensation levels, with companies repeatedly increasing compensation to  
6 achieve at or above benchmark compensation levels. Further, since benchmarking using  
7 comparison studies particularly benefits the more highly-paid employees of the companies, it  
8 is no surprise that the executives of these companies continue to commission compensation  
9 studies and use them to justify compensation increases and improvements in benefit plans. It  
10 goes without saying that no executive team would ever rehire a compensation consultant who  
11 produced a study that concluded that they were overcompensated or had too many perks. So  
12 the cycle of increases based on compensation studies is never-ending, regardless of whether  
13 the availability and retention of suitable employees is actually driven by benchmarked  
14 compensation or not. Further, the compensation consultants have no incentive to encourage  
15 using better methods of setting compensation levels, because benchmarking to comparison  
16 studies inevitably produces recommendations that benefit the executives who hired the  
17 consultants. Also inevitably, these executives will continue to commission new  
18 compensation studies on a regular basis, having learned that compensation studies based on  
19 benchmarking produce recommendations to improve compensation. I should note here that I  
20 recognize that utilities legitimately require a highly skilled workforce and that attracting and  
21 retaining experienced and valued employees is a benefit to the ratepayers as well as to the

1 shareholders of each utility. I also recognize that utilities legitimately require top-level  
2 employees to direct the operations and guide and protect the financial health of the utility.  
3 That said, it should not be the obligation of ratepayers to foot the bill for excessive  
4 compensation levels for any utility employee—particularly not for top-level executives  
5 whose primary focus is on meeting shareholders’ interests—and particularly if the method  
6 selected by those executives to review the adequacy of the utility’s compensation plan will  
7 always conclude that they deserve a better plan. Such reviews are meaningless to truly assess  
8 the reasonableness of the compensation packages offered to utility employees or the true  
9 value of these plans in attracting and retaining them. They only result in successively higher  
10 employee costs, and are not supported by any proof whatsoever that the increased costs are a  
11 necessary or reasonable means of achieving the legitimate goals of a publicly-regulated  
12 utility. Therefore, the KCC should be particularly wary of any compensation plans that  
13 utilities attempt to justify by means of comparison to benchmark studies. And that is why I  
14 recommend focusing the recovery from ratepayers of compensation program costs on the  
15 plans that award compensation based on achievement toward meeting the goals that are most  
16 closely related to the provision of reliable utility service to ratepayers at reasonable rates.

17  
18 **Q. How did you quantify your adjustment to incentive compensation program costs?**

19 **A.** I reviewed each of the four programs individually to determine the weight given to financial  
20 goals or goals that do not otherwise benefit ratepayers. With regard to the AIP, since 60% of  
21 these awards are weighted toward financial goals, I eliminated 60% of the AIP costs included

1 by the Company in its claim. I also eliminated 60% of the costs associated with the STIP.  
2 With regard to the Performance Share awards, which are completely dependent on TSR, I  
3 recommend that 100% of these award costs be disallowed. Finally, I also recommend that  
4 100% of the Restricted Stock awards be disallowed. My recommendation is shown in  
5 Schedule ACC-13.  
6

7 **Q. Didn't the KCC deny your recommended incentive compensation adjustment in an**  
8 **Aquila electric base rate case?**

9 A. Yes, it did. In that case, I recommended disallowance of 25% of Aquila's incentive costs, on  
10 the basis that 25% of the incentive costs related to the fulfillment of financial goals that  
11 provided no direct benefit to ratepayers. The KCC did not address my specific  
12 recommendation in its Order, finding only that "[t]he Commission can see value, under the  
13 right circumstances, in using incentive pay as a means for utility management to promote the  
14 achievement of certain operational goals."<sup>6</sup> In a more recent Kansas City Power and Light  
15 Company case, the KCC found that 50% of certain incentive compensation costs should be  
16 disallowed.<sup>7</sup> It is my understanding that the KCC has not previously examined the Black  
17 Hills Kansas incentive compensation programs that are the subject of this filing.  
18

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6 Order on Application, January 16, 2004, Docket No. 04-AQLE-1065-RTS, paragraph 36.

7 Order on KCP&L's Application for Rate Change, December 13, 2012, paragraph 47.

1           **D.     Payroll Tax Expense**

2           **Q.     Are you recommending any adjustments to the Company's payroll tax claim?**

3           **A.**     Yes, I am recommending two adjustments. First, the Company used a payroll tax rate of  
4           8.29% to calculate the incremental payroll taxes associated with its salary and wage  
5           adjustment. In response to KCC-280, the Company indicated that this rate included Federal  
6           Unemployment Tax of 0.6% on the first \$7,000 of payroll and State Unemployment Tax at  
7           various state rates. However, the Federal Unemployment Tax would not apply to payroll  
8           increases included in the Company's payroll adjustment unless the underlying salary or wage  
9           remained less than \$7,000 annually. In addition, Black Hills Kansas did not show that  
10          incremental State Unemployment Tax would necessarily be paid on the payroll increases  
11          included in its filing.

12                     The only payroll tax increases that should be included are those that are directly  
13          related to the salary and wage increases included in the filing. Therefore, it is more  
14          reasonable to calculate incremental payroll tax expense using the statutory payroll tax rate of  
15          7.65%. Even this rate may be overstating the Company's incremental liability, particularly if  
16          there are highly paid employees included in the Company's claim. However, a rate of 7.65%  
17          is more appropriate than the 8.29% payroll tax rate included by Black Hills.

18  
19          **Q.     How did you quantify your adjustment?**

20          **A.**     To quantify my adjustment, I applied the statutory income tax rate of 7.65% to the  
21          Company's payroll expense adjustment. I then compared that result to the incremental

1 payroll tax expense claimed by Black Hills Kansas. My adjustment is shown in Schedule  
2 ACC-14.

3  
4 **Q. What is your second payroll tax adjustment?**

5 A. Since I am recommending elimination of payroll costs for vacant positions and certain  
6 incentive compensation costs from the Company's revenue requirement, it is necessary to  
7 also eliminate the associated payroll taxes. Therefore, at Schedule ACC-15, I have made an  
8 adjustment to eliminate payroll tax expense associated with my payroll and incentive  
9 compensation adjustments. To quantify my adjustment, I utilized the statutory payroll tax  
10 rate of 7.65%, for the reasons discussed above.

11  
12 **E. Employee Benefits Expense**

13 **Q. Are you recommending any adjustment to the Company's employee benefits  
14 adjustment that was associated with its payroll expense adjustment?**

15 A. Yes, I am. As discussed above, the Company included an adjustment to employee benefits to  
16 reflect benefits associated with its payroll adjustment. Specifically, Black Hills Kansas used  
17 a benefits/payroll ratio of 39.55% to quantify the incremental benefits associated with payroll  
18 increases. Since I am recommending an adjustment to the Company's salary and wage claim,  
19 it is necessary to make a corresponding adjustment to its employee benefits claim.  
20 Therefore, at Schedule ACC-16, I have made an adjustment to eliminate the employee  
21 benefits increase associated with vacant positions.

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**Q. Has the Company demonstrated that its employee benefits are directly related to payroll costs?**

A. No, it has not. While my employee benefits adjustment is limited to benefits associated with vacant positions, there are clearly benefit costs included in the Company’s claim that do not vary directly with increases in payroll. For example, the Company’s pension and OPEB costs are largely dependent on assumptions regarding future market returns and interest rates, factors that have nothing to do with payroll increases. Similarly, medical benefit costs are not dependent upon salary levels. Some of these benefits are the subject of other recommended adjustments discussed later in my testimony.

However, the fact that I limited my employee benefits expense to benefits associated with vacant positions should not be taken as support for the methodology used by the Company to quantify its claim. Black Hills Kansas should have included in its adjustment only those benefits that increase in direct proportion to increases in salaries and wages. Many of the benefit costs used in the Company’s adjustment were not specifically identified as to the type of benefit, so I did not have sufficient information to make an additional adjustment. While we asked the Company for additional information in the discovery process, it did not provide a breakdown by category of all benefits included in its adjustment. Therefore, I did not make a separate adjustment in my revenue requirement calculation.

1           **F.     Pension and OPEB Expense**

2           **Q.     Did the Company make any adjustment to its claims for pension and OPEB costs?**

3           A.     Except for the adjustments discussed above with regard to employee benefits associated with  
4           salary and wage adjustments, Black Hills Kansas did not make any other adjustments to its  
5           Test Year costs for pension and OPEBs.  However, as discussed by Ms. Patterson, the  
6           Company is proposing a change in the way that such costs are treated for ratemaking  
7           purposes.  The Company is requesting that the KCC authorize the Company to implement a  
8           tracking mechanism, to track differences between the pension and OPEB expenses reflected  
9           in rates and the actual costs incurred.

10  
11          **Q.     Are you recommending that the KCC authorize pension and OPEB trackers for Black  
12          Hills Kansas?**

13          A.     Yes, I am.  While I generally oppose tracking mechanisms on the basis that such mechanisms  
14          shift the risk of recovery from shareholders to ratepayers, I recognize that the KCC has  
15          adopted similar pension and OPEB tracking mechanisms for several other Kansas utilities.  
16          Moreover, CURB participated and provided input in the proceedings where such  
17          mechanisms were designed.  Therefore, I am not opposed to a similar mechanism being  
18          approved for Black Hills Kansas.  As noted by Ms. Patterson, the tracking mechanism would  
19          accumulate the difference between the Company's pension / OPEB expense included in base  
20          rates and its actual annual pension and OPEB expenses.  These differences would accumulate  
21          in a regulatory asset or liability account, which would be amortized in the next base rate case

1 over a period not to exceed five years. The regulatory asset or liability would not be included  
2 in rate base and no carrying charges would accrue. Black Hills should be required to fund its  
3 pension and OPEB costs consistent with the requirement imposed on other utilities. Based  
4 on these criteria, I am not opposed to the Company's request to implement pension and  
5 OPEB trackers.

6  
7 **Q. Are you recommending any adjustment to the amount of pension expense included in**  
8 **rates resulting from this proceeding?**

9 A. Yes, I am. Pension expense is determined annually based on an actuarial study that includes  
10 numerous assumptions, including assumptions regarding the discount rate, the future rate of  
11 return that is expected to be earned on plan assets, and future increases in compensation  
12 levels. As noted previously, a major assumption is the discount rate assumption. According  
13 to the response to KCC-146, the discount rate used in the Test Year was 4.25% while the  
14 current discount rate is 5.0%. All other things being equal, an increase in the discount rate  
15 will reduce the Company's actuarially-determined annual cost.

16 As shown in the response to KCC-178, actual costs for the first six months of 2014  
17 were considerably less than costs for the first six months of 2013. For January-June 2014,  
18 actual pension expense was \$515,619 while costs for the first six months of 2013 were  
19 \$758,240. While I generally oppose post-Test Year adjustments, in this case there will  
20 eventually be a true-up of costs reflected in the Company's revenue requirement and actual  
21 costs, assuming that the tracking mechanism is approved. Therefore, it is reasonable for the



1 KCC to include the most relevant cost estimate available in new rates.

2

3 **Q. How did you quantify your adjustment to pension expense?**

4 A. I am recommending an adjustment to reflect the difference between actual pension expense  
5 incurred during the first six months of the Test Year and actual pension expense during the  
6 first six months of 2014. My adjustment is shown in Schedule ACC-17.<sup>8</sup>

7

8 **Q. Are you recommending any adjustment to the Company's OPEB expense claim?**

9 A. Yes, I am recommending a similar adjustment to the Company's OPEB costs. OPEB costs,  
10 like pension costs, are developed based on an actuarial study that contains numerous  
11 assumptions about market conditions, discount rates, and other factors. Therefore, changes  
12 in any of these assumptions can have a significant impact on annual OPEB expense. As  
13 shown in the response to KCC-179, OPEB costs for the first six months of 2014 were  
14 \$132,219, or \$16,295 less than the \$148,514 incurred during the first six months of the Test  
15 Year. Accordingly, at Schedule ACC-18, I have made an adjustment to reduce the  
16 Company's OPEB expense by \$16,295.<sup>9</sup>

17

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8 My adjustment will result in pro forma annual pension expense of \$1,267,729, which would form the basis for the tracker.

9 This adjustment will result in a pro forma annual OPEB expense of \$276,855.

1           **F.     Supplemental Executive Retirement Plan (“SERP”) Expense**

2           **Q.     What are SERP costs?**

3           A.     These costs relate to a supplemental retirement plan that provides benefits for key executives  
4           that are in addition to the normal retirement programs provided by the Company. These  
5           supplemental retirement plans generally exceed various limits imposed on retirement  
6           programs by the Internal Revenue Service (“IRS”) and therefore are referred to as “non-  
7           qualified” plans. According to the Company’s Proxy Statement at page 36,

8                     We also have a Grandfathered Pension Equalization Plan, a 2005 Pension  
9                     Equalization Plan and a Pension Restoration Benefit. These are nonqualified  
10                    supplemental plans, in which benefits are not tax deductible until paid. The  
11                    plans are designed to provide the higher paid executive a retirement benefit  
12                    which, when added to social security benefits and the pension to be received  
13                    under the Pension Plan, will approximate retirement benefits being paid by  
14                    other employers to their employees in similar executive positions. The  
15                    employee’s pension from the qualified pension plan is limited by the Internal  
16                    Revenue Code. The 2013 pension limit was set at \$205,000 annually and the  
17                    compensation taken into account in determining contributions and benefits  
18                    could not exceed \$255,000 and could not include nonqualified deferred  
19                    compensation. The amount of deferred compensation paid under nonqualified  
20                    plans is not subject to these limits.  
21

22           **Q.     What are the Test Year SERP costs that the Company has included in its claim?**

23           A.     As shown in the response to CURB-19, the Company included SERP costs of \$214,932 in its  
24           filing.  
25

26           **Q.     What is the total compensation awarded to the Named Executive Officers (“NEO”) in  
27           the Test Year?**

28           A.     The base salaries for these individuals ranged from \$312,219 to \$689,650. Total

1 compensation for the NEOs ranged from \$924,221 to \$2,787,610.

2  
3 **Q. Do you believe that SERP costs should be included in utility rates?**

4 A. No, I do not. As noted above, the officers of the Company are already well-compensated.  
5 Moreover, employees that receive SERP benefits are also included in the normal retirement  
6 plans of the Company, so ratepayers are already paying retirement costs for these employees.  
7 CURB is not recommending any adjustment to the pension costs for these officers that is  
8 included in the Company's qualified pension plan claim. Nor has CURB recommended any  
9 reduction to the significant base salaries being awarded to these executives. However, if  
10 Black Hills Kansas wants to provide further, non-qualified retirement benefits to select  
11 officers, then shareholders, not ratepayers, should fund these excess benefits. Therefore, I  
12 recommend that the KCC disallow the Company's claim for SERP costs. My adjustment is  
13 shown in Schedule ACC-19.

14  
15 **H. Future Track Program Expense**

16 **Q. Please describe the Company's claim for costs associated with the Future Track**  
17 **Program.**

18 A. As described in the testimony of Ms. Landis, the Company is requesting approval for an  
19 eight-year program related to recruitment and training of employees to replace employees  
20 that it expects will retire over that period. Ms. Landis states that the Company has an aging  
21 workforce and that approximately 20 operational employees are expected to retire over the

1 next eight years. Moreover, she states that there is an industry-wide shortage of qualified,  
2 well-trained employees. Therefore, the Company is requesting authorization for a Future  
3 Track Program, whereby ratepayers would pay \$245,968 annually for the next eight years to  
4 cover the Company's costs of replacing these employees.

5 In addition to relocation and recruiting costs, Black Hills Kansas is also proposing to  
6 charge ratepayers for scholarships and other training programs that would be provided to  
7 potential employees. In addition, the Company is proposing to hire employees well in  
8 advance of an existing employee's retirement date. As shown in Exhibit JCL-1, Black Hills  
9 Kansas has assumed a training and transition period of 1-2 years for each employee, meaning  
10 that duplicate labor costs would be charged to ratepayers over this period. Moreover, Black  
11 Hills has indicated that the employee training period could extend for up to four years.

12 Black Hills Kansas is proposing to provide scholarships for technical schools and  
13 colleges to residents in its service territory. It is also proposing to relocate potential  
14 employees and their families if required. The Company has included 36 positions in its  
15 claim. While many of these positions relate to replacements for retiring employees, the  
16 Company has also included costs in some cases for new employee positions, such as five  
17 Information Technology ("IT") developers. In addition, the Company also included costs  
18 relating to twelve unidentified "Other Operations Support and Management Roles" in its  
19 claim.

20  
21 **Q. What are the total costs for the Future Track Program that Black Hills Kansas has**

1 **included in its claim?**

2 A. Black Hills Kansas is proposing to recover \$245,968 each year for eight years, for a total cost  
3 to ratepayers of \$1,967,746. If the Company incurs more than \$245,968 in any one year, then  
4 Black Hills Kansas is proposing to record a regulatory asset to recover the additional amount  
5 in a subsequent year. If the Company incurs less than this amount in a given year, it proposes  
6 to record a regulatory liability. At the end of the eight-year period, Black Hills Kansas is  
7 proposing that any balance in a regulatory asset account would be recovered from ratepayers  
8 over a three-year period.

9  
10 **Q. Please itemize the costs for the Future Track Program requested by Black Hills Kansas.**

11 A. The Company's annual claim of \$245,968 is based on the following breakdown, as shown on  
12 page 11 of Ms. Landis' testimony:

Expense Type	Estimated Annual Cost
Labor & Benefits	\$185,950
Relocation/Onboarding	\$23,444
Scholarships	\$13,410
Training	\$23,164
Total	\$245,968

13  
14 **Q. Should the KCC approve the proposed Future Track Program as proposed by Black  
15 Hills Kansas?**

16 A. No, it should not. I have several concerns regarding the proposed program. First, recruiting  
17 and training employees is an integral part of any business. There is no reason why the  
18 Company should require a new ratemaking mechanism in order to meet its obligation to staff

1 the utility appropriately. While I do not doubt the Company's contention that its workforce  
2 is aging, Black Hills Kansas has not demonstrated that it is unable to meet its obligation to  
3 provide service under the current ratemaking process.

4 Second, there is no evidence that the Black Hills Kansas labor market is a particularly  
5 tight market. I have worked for utility companies and I certainly understand that there are  
6 many positions that require specialized training. However, in general, the employment  
7 market in the United States is still an employers' market. Moreover, I am unaware of any  
8 instance where the KCC has disallowed reasonable recruitment and training costs. To the  
9 extent that Black Hills incurs recruitment and training costs, it is certainly able to seek  
10 recovery of such costs in its revenue requirement prospectively. In fact, I expect that the Test  
11 Year in this case includes some level of recruitment and training costs. To my knowledge, no  
12 party is challenging such costs in this case.

13 Third, while the Company claims that the Future Track Program is necessary in order  
14 to replace experienced operational employees that are retiring, it has included five new IT  
15 positions and 12 Other Operations Support and Management positions in its Future Track  
16 Program costs. Therefore, out of the 36 positions included in the Future Track Program  
17 claim, almost half (17) of these positions are not associated with the replacement of  
18 operational employees that are retiring. Therefore, the proposed Future Track Program  
19 appears to be another attempt by the Company to shift certain risks from shareholders to  
20 ratepayers. With this program, the Company is attempting to shift the risk of recovering  
21 costs associated with staffing activities, including staffing relating to entirely new employee

1 positions.

2 Finally, the Company's Future Track Program is speculative. None of the parties in  
3 this case know what the employment market will be eight years from now or how the staffing  
4 needs of the utility may change over this period. In fact, it appears that several retirements  
5 that the Company projected for 2014 have not occurred.<sup>10</sup> Instead of pre-approving an eight-  
6 year speculative staffing program, the KCC should continue to permit Black Hills Kansas to  
7 recover reasonable recruiting and training costs in base rates through the traditional  
8 ratemaking process. Therefore, at Schedule ACC-20, I have reflected an adjustment to  
9 eliminate the proposed Future Track Program from the Company's revenue requirement.

10  
11 **I. Uncollectible Expense**

12 **Q. How did the Company determine its uncollectible expense claim in this case?**

13 A. The Company's claim is based on a three-year average of net write-offs divided by average  
14 billed revenue. This resulted in an uncollectible rate of 0.5985%. The Company then  
15 applied this rate to pro forma revenue of \$112,387,508 to determine its pro forma  
16 uncollectible costs of \$672,679. Based on Test Year actual uncollectible costs of \$461,771,  
17 this resulted in an uncollectible expense adjustment of \$210,908.

18  
19 **Q. Are you recommending any adjustment to the Company's claim?**

20 A. Yes, I am recommending two adjustments. First, instead of averaging the net write-offs and

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<sup>10</sup> Per the response to KCC-255.

1 revenues over a three-year period, and using the resulting average to develop the  
2 uncollectible factor, I calculated the uncollectible factor for each of the three years  
3 individually and then used a three-year average of the annual uncollectible rates. I believe  
4 that this results in a more accurate factor, since the uncollectible factor tends to increase as  
5 revenues (and therefore customer bills) increase. The result was an uncollectible factor of  
6 0.5963% instead of the 0.5985% reflected in the filing.

7 Second, I applied the uncollectible factor of 0.5985% to the Company's adjusted  
8 revenues of \$110,395,158, which are the Adjusted Income Statement Revenues per Section  
9 3, Schedule 2, at page 3 of the filing. The revenues used by the Company in its uncollectible  
10 expense adjustment do not reflect all of the pro forma revenue adjustments contained in the  
11 filing. The uncollectible factor should be applied to the pro forma revenues being claimed.  
12 The impact of both of these adjustments is shown in Schedule ACC-21, and results in a small  
13 decrease in pro forma uncollectible expense compared with the amount reflected by Black  
14 Hills Kansas in its filing.

15  
16 **J. Gas Management System Expense**

17 **Q. Are you recommending any adjustment to the Company's claim for operating and**  
18 **maintenance costs associated with the new Gas Management System?**

19 **A.** Yes, I am. As discussed earlier in my testimony, the Company has included both capital and  
20 operating costs associated with a new Gas Management System. This system is not expected  
21 to be in service until well after the end of the Test Year. Accordingly, I am recommending



1 that the KCC deny the Company's request for recovery of these costs in this case. My  
2 adjustment to remove the capital costs associated with the new Gas Management System was  
3 discussed in the Rate Base section of my testimony. I am also recommending an adjustment  
4 to eliminate the Company's claim for operating and maintenance costs associated with the  
5 new system. These costs should not be reflected in rates until the system is operational and  
6 in-service. My adjustment is shown in Schedule ACC-22.

7  
8 **K. Meals and Entertainment Expense**

9 **Q. Are you recommending any adjustment to the Company's meals and entertainment**  
10 **expense claim?**

11 A. Yes, I am. The Company has included in its filing \$109,886 of meals and entertainment  
12 expenses in its filing, 50% of which are not deductible on the Company's income tax return.  
13 The IRS typically limits recovery of meals and entertainment expenses to 50% on the basis  
14 that a portion of these expenditures are not appropriate deductions for federal tax purposes.  
15 If these costs are not deemed to be appropriate business expenses by the IRS, it seems  
16 reasonable to conclude that they are not appropriate business expenses to include in a  
17 regulated utility's cost of service.

18  
19 **Q. Was the Company able to identify which meals and entertainment expenses had a**  
20 **direct business purpose and which did not?**

21 A. No. In KCC-190, Staff asked the Company to provide a breakdown of meals "provided for a

1 business related function or meals related to non-business activities.” In response, Black  
2 Hills Kansas indicated that “[t]he Company’s accounting system does not provide the level  
3 of detail requested.” Therefore, the Company has not demonstrated that all meals included in  
4 its claim are related to the provision of utility service. Accordingly, at Schedule ACC-23, I  
5 have made an adjustment to eliminate these costs from the Company’s revenue requirement.  
6 While there may be certain costs for meals that should be borne by ratepayers, there are also  
7 likely to be costs included in this category for meals that should be entirely excluded from  
8 the Company’s revenue requirement. In addition, it is difficult to envision circumstances in  
9 which the “entertainment” portion of these costs should be recovered from ratepayers.  
10 Therefore, my recommendation to use the 50% IRS criteria provides a reasonable balance  
11 between shareholders and ratepayers and should be adopted by the KCC. My adjustment  
12 still results in the remaining 50% of these costs being recovered through regulated rates.

13  
14 **L. Miscellaneous Expenses**

15 **Q, Did the Company include any miscellaneous expenses in its claim that you recommend**  
16 **the KCC disallow?**

17 A. Yes, it did. As shown in the response to KCC-75, the Company’s claim includes \$1,023 in  
18 golf and country club charges and \$625 in other sporting event charges that I recommend the  
19 Commission disallow. I realize that these are very small amounts. However, golf fees,  
20 country club charges, and costs for other sporting events traditionally have been disallowed  
21 by regulatory agencies. While the Company has made an adjustment to only include 50% of

1 some of these charges in rates, on the basis that they are membership dues and therefore  
2 subject to the 50/50 sharing between ratepayers and shareholders, the KCC has the ability to  
3 eliminate, in its entirety, any expense that it believes should not be paid by ratepayers. The  
4 golf games and other events shown in this response are not necessary for the provision of  
5 utility service. Moreover, allowing utilities to recover these costs in utility rates sends a  
6 disturbing message to ratepayers: in addition to footing the bill for Black Hills's costs of  
7 providing service, ratepayers must also foot the bill for the costs of its employees' leisure  
8 activities. Therefore, I recommend that the KCC make an adjustment to eliminate from the  
9 Company's revenue requirement \$1,023 in golf and country club charges and \$625 in costs  
10 for sporting events. My adjustment is shown in Schedule ACC-24.

11 In addition, in the response to CURB-160, the Company identified \$1,278 of costs  
12 included in its claim that should have been coded as charitable contributions. Therefore,  
13 Black Hills Kansas should have included only 50% of these costs, or \$639, in its claim. At  
14 Schedule ACC-24, I have also included an adjustment to reduce the Company's claim to  
15 eliminate 50% of these costs.

16  
17 **M. Depreciation Expense**

18 **Q. How did the Company determine its depreciation expense claim in this case?**

19 A. Black Hills Kansas included several depreciation expense adjustments in its filing. First, the  
20 Company included an annualization adjustment to reflect annual depreciation expense based  
21 on plant-in-service at December 31, 2013, the end of the Test Year. In addition, this

1 adjustment reflected new depreciation rates that are being proposed in this case. I have not  
2 made any adjustment in my testimony to the Company's proposed depreciation rates.  
3 Depreciation policy issues are being addressed by Mr. Majoros.

4 Second, Black Hills Kansas included an adjustment related to its reclassification of  
5 certain plant balances between regulated and non-regulated operations. Third, the Company  
6 included a depreciation expense adjustment to reflect incremental depreciation associated  
7 with its post-Test Year plant additions.

8  
9 **Q. Are you recommending any adjustment to the Company's claim?**

10 A. Yes, I am recommending one adjustment. Since I have reflected utility plant-in-service at  
11 June 30, 2014, in my pro forma rate base, it is necessary to make a corresponding adjustment  
12 to reflect annualized depreciation expense based on the June 30, 2014, plant balances. At  
13 Schedule ACC-25, I have made an adjustment to reflect annual depreciation expense based  
14 on my plant-in-service recommendation. My pro forma annual depreciation expense is  
15 actually higher than the amount included in the Company's filing. Therefore, this adjustment  
16 results in an increase to pro forma expense and a decrease to operating income at present  
17 rates.

18  
19 **N. Interest Synchronization and Taxes**

20 **Q. Have you adjusted the pro forma interest expense for income tax purposes?**

21 A. Yes, I made this adjustment at Schedule ACC-26. It is consistent (synchronized) with

1 CURB's recommended rate base, capital structure, and cost of capital recommendations.  
2 CURB is recommending a lower rate base than the rate base that the Company included in its  
3 filing. CURB's recommendation results in lower pro forma interest expense for the  
4 Company. This lower interest expense, which is an income tax deduction for state and  
5 federal tax purposes, will result in an increase to the Company's income tax liability under  
6 CURB's recommendations. Therefore, CURB's recommendations result in an interest  
7 synchronization adjustment that reflects a higher income tax burden for the Company, and a  
8 decrease to pro forma income at present rates.  
9

10 **Q. What income tax factor have you used to quantify your adjustments?**

11 A. As shown on Schedule ACC-27, I have used a composite income tax factor of 39.55%,  
12 which includes a state income tax rate of 7.0% and a federal income tax rate of 35.0%.  
13 These are the state and federal income tax rates contained in the Company's filing. These  
14 rates result in a revenue multiplier of 1.6543, which is the multiplier reflected in the  
15 Company's calculation of its pro forma revenue deficiency.  
16

17 **VII. REVENUE REQUIREMENT SUMMARY**

18 **Q. What is the result of the recommendations contained in your testimony?**

19 A. My adjustments indicate a revenue requirement deficiency at present rates of \$1,384,271, as  
20 summarized on Schedule ACC-1. This recommendation reflects revenue requirement  
21 adjustments of \$5,894,428 to the revenue increase of \$7,278,700 requested by Black Hills

1 Kansas.

2

3 **Q. What base rate increase will result from your recommendations?**

4 A. As discussed earlier, the Company included Test Year GSRS revenues of \$2,229,412 in the  
5 pro forma revenue claim used to calculate its revenue deficiency. Although these revenues  
6 were collected from ratepayers in the Test Year, they were not included in base rates.  
7 Therefore, base rates will need to increase to reflect both my recommended revenue increase  
8 of \$1,384,271 as well as the \$2,229,412 of GSRS revenue that is being rebased in this case.  
9 Therefore, the total base rate increase will be \$3,613,683.

10

11 **Q. What is the net impact to ratepayers if your recommendations are accepted?**

12 A. While my recommendations will increase base rate by \$3,613,683, there will be an offsetting  
13 decrease of \$2,229,412 in the GSRS. In addition, the Ad Valorem Surcharge of \$2,240,959  
14 will be eliminated, resulting in a net reduction to ratepayers of \$856,688.

15

16 **Q. Do you believe that it is reasonable for ratepayers to experience a net reduction, given  
17 the fact that this is the first base rate case for Black Hills Kansas in many years?**

18 A. Yes, I do. There are several factors that could be contributing to an overall rate reduction in  
19 this case. First, capital costs have declined significantly since the Company's last base rate  
20 case. In that case, the Company requested a return on equity of 12.0%, a cost of debt of  
21 7.13%, and an overall rate of return of 9.60%. In this case, the Company is requesting a

1 return on equity of 10.60%, a cost of debt of 4.40%, and an overall rate of return of 6.59%.

2 This significant decline in capital costs is certainly a major reason why Black Hills Kansas  
3 has been able to avoid requesting a rate increase since the acquisition of the Aquila system by  
4 Black Hills.

5 Second, as we have discussed, there are certain operating expenses that do not  
6 necessarily increase every year. Pension costs are a good example. As shown in the  
7 response to CURB-22, pension costs declined each year from 2008 through 2011. After  
8 increasing in 2012 and 2013, pension costs are again expected to decline in 2014. Pension  
9 costs are very dependent on market conditions, and annual costs to the utility depend largely  
10 on market returns, which obviously can fluctuate from year to year. This is just one example  
11 of a revenue requirement component that does not necessarily increase annually. In addition,  
12 while utility plant-in-service does generally increase each year, the increase is at least  
13 partially offset by increases to the depreciation and deferred income tax reserves. In addition,  
14 the number of Black Hills Kansas's customers has increased since the acquisition; these  
15 additional revenues have helped to offset cost increases over this period. With reductions in  
16 certain costs and added revenues from new customers, a utility may prosper even as rates  
17 remain constant.

18 Third, overall rates have not remained static since the acquisition. Ratepayers have  
19 experienced \$4.47 million in rate increases through the GSRS and Ad Valorem Surcharges  
20 since Black Hills acquired these customers. So, the Company has had the benefit of increases  
21 in those revenues even as base rates remained constant, and will continue to be eligible for

1 periodic increases in the GSRS and Ad Valorem Surcharges.

2 Fourth, the acquisition of the Aquila gas assets by Black Hills was anticipated to  
3 result in operating efficiencies and cost savings. In the KCC docket that ultimately approved  
4 the transaction, synergy savings were major factors argued by the Applicants as support for  
5 the acquisition. It appears that at least some of these projected synergy savings have been  
6 realized, which has allowed Black Hills Kansas to delay filing a base rate increase.

7 All of these factors considered together help explain why it should not be surprising  
8 that the net impact to customers from this case, after consideration of the GSRS and Ad  
9 Valorem Surcharge offsets, should be a slight reduction in net revenues.

10  
11 **Q. Have you quantified the revenue requirement impact of each of your recommended**  
12 **adjustments?**

13 A. Yes, at Schedule ACC-28, I have quantified the impact on the Company's revenue  
14 requirement of CURB's rate of return, rate base, revenue and operating expense adjustments.

15  
16 **Q. Have you developed a pro forma income statement?**

17 A. Yes, Schedule ACC-29 contains a pro forma income statement, showing utility operating  
18 income under several scenarios, including the Company's claimed operating income at  
19 present rates, my recommended operating income at present rates, and operating income  
20 under my proposed rate increase. My recommendations will result in an overall return on  
21 rate base of 6.59% as recommended by Dr. Woolridge.



1 **VIII. ACCELERATED PIPELINE REPLACEMENT RIDER**

2 **Q. Please describe the APRR being proposed by Black Hills Kansas in this case.**

3 A. The Company is requesting that the KCC approve a ratemaking mechanism whereby Black  
4 Hills Kansas would be permitted to recover the costs of various investment projects that go  
5 into service between base rate cases. Specifically, the Company is seeking to implement a  
6 surcharge rider to cover the costs of five categories of investment. As described in Mr.  
7 Meyer's testimony, the investment proposed for recovery includes:

- 8 1. \$1.5 million for odorization equipment on farm taps serving irrigation  
9 customers;
- 10 2. \$3 million for replacement of bare steel riders and associated Aldyl-A  
11 main and service lines without tracer wire in Lawrenceville;
- 12 3. \$4 million for replacement of 22 miles of reclaimed bare steel  
13 distribution line near Wichita;
- 14 4. \$3.1 million for replacement of 9 miles of 8" bare steel high pressure  
15 transmission line near Wichita;
- 16 5. \$4.0 million for reconstruction of the Anadarko line acquired in 2013.

17  
18  
19 The Company is proposing to complete \$5.2 million of investment for the above projects in  
20 each of the next three years, for a total cost of \$15.6 million.

21  
22 **Q. What costs would be included in the APRR?**

23 A. As described by Mr. Keil, the proposed APRR would include a return on the capital costs at  
24 the rate approved by the KCC in this case, depreciation expense, and applicable income  
25 taxes. Black Hills Kansas proposes to begin collecting this surcharge in January 2016, based  
26 on estimated expenditures in 2015. The Company proposes to allocate these costs among  
27 customer classes based on the class cost of service study filed in this case.

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**Q. Is the Company proposing to replace the GSRS with the APRR?**

A. No, the Company is not proposing to replace the GSRS with the APRR. As stated by Mr. Meyer on page 18 of his testimony, “[t]he GSRS will continue to be used for replacement of bare steel and other eligible integrity investments.” Rather, the APRR would be in addition to the GSRS.

**Q. Do you support the regulatory mechanism proposed by Black Hills Kansas in this case for accelerated pipeline replacement projects?**

A. No, I do not, for several reasons. First, Black Hills Kansas has not demonstrated that the APRR is necessary in order to make the investments required in the Kansas system. While I understand that shareholders would like to increase their returns and reduce their risk, the Company has not demonstrated that another surcharge is necessary in order for Black Hills Kansas to meet its service obligations. Replacing existing facilities, complying with safety requirements, and undertaking facility relocations are not new concepts. Instead, they are integral activities incurred in the provision of utility service. The regulatory compact provides that in exchange for being granted a monopoly franchise area, a utility will provide safe and reliable utility service at reasonable rates. The obligation to provide safe and reliable service is a cornerstone of the utility’s obligations. Thus, the concept of undertaking such investment, when required, is not new or novel. Rather, this is a fundamental obligation of any gas distribution company.

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**Q. How does the regulatory surcharge mechanism envisioned by Black Hills Kansas fundamentally differ from base rate recovery?**

A. Under the traditional ratemaking mechanism, shareholders bear the risk of cost recovery between base rate cases. In addition, shareholders also benefit from regulatory lag between base rate case proceedings if expenses are less than anticipated or if revenues are higher than projected. However, contrary to economic theory and good ratemaking practice, the proposed APRR will increase shareholder return while significantly reducing risk. This is because shareholders will no longer be at risk for incremental capital costs associated with these projects between base rate cases. Instead, shareholders will be guaranteed a return on, and a return of, their investment for projects recovered through the surcharge. Shareholder risk associated with new investment has already been significantly reduced in Kansas through implementation of the GSRS. This risk will be virtually eliminated for certain projects if the Company's proposal is adopted. Rather than providing the Company a reasonable opportunity to recover its capital costs and earn its authorized rate of return, this surcharge would provide an iron-clad guarantee of recovery and earnings, which erodes the regulated utility's incentive to be prudent and efficient in executing its capital projects.

In addition, the APRR proposed by Black Hills Kansas is not dependent upon the earnings of the Company, meaning that Black Hills Kansas could implement the surcharge even it were otherwise earning its authorized return.

1 **Q. Is the Company proposing any reduction to its cost of equity to reflect the lower risk**  
2 **inherent in the regulatory asset?**

3 A. No, it is not. In spite of the fact that the APRR would virtually eliminate shareholder risk  
4 for certain projects, and will transfer that risk to ratepayers, the Company has not proposed  
5 any reduction to the cost of equity to be paid by ratepayers to recognize this reduced  
6 shareholder risk. Thus, the Company's proposal provides exactly the wrong movement in  
7 return on equity that one would expect, given the resulting reduction in shareholder risk.

8  
9 **Q. Would the proposed APRR reduce base rate case filings?**

10 A. No. According to the testimony of Mr. Meyer on page 19, "[t]he rider does provide revenue  
11 that helps offset the dilutive effect of rate base additions, but not enough to delay a rate  
12 case." Therefore, the proposed rider is not expected to impact the timing of base rate case  
13 filings.

14  
15 **Q. Do you have any concerns about the underlying projects included in the proposed**  
16 **APRR?**

17 A. I am not questioning the need to undertake the projects proposed for recovery through the  
18 APRR. However, I find it disingenuous for the Company to argue that a new ratemaking  
19 mechanism should be adopted to recover investment associated with replacement of the  
20 Anadarko line. This investment accounts for approximately 25% of the costs proposed for  
21 recovery through the APRR. I am not aware of any suggestion by the Company when it

1           acquired the Anadarko line that the acquisition was dependent upon a new ratemaking  
2           mechanism. If the Company did not have the ability to finance required replacement costs  
3           for the Anadarko line through the traditional ratemaking process, then perhaps it should not  
4           have acquired the Anadarko line.

5  
6           **Q.    Does the Company already have a mechanism to recover certain investment costs  
7           between base rate cases?**

8           A.    Yes, it does. The Company already has a GSRS rider that provides for the recovery of these  
9           types of gas investments between base rate case proceedings. The proposed APRR would  
10           further expand the GSRS rider by guaranteeing recovery of costs that were not yet otherwise  
11           reflected in the GSRS rider. In addition, the proposed APRR would serve to override the  
12           customer protection safeguards imposed by the Legislature when it enacted the GSRS.

13  
14           **Q.    Has the KCC rejected investment-recovery proposals made by other gas utilities?**

15           A.    Yes, it has. In KCC Docket No. 12-KGSG-721-TAR, the KCC rejected a proposal by  
16           Kansas Gas Service (“KGS”) to implement an Infrastructure Replacement Program  
17           Surcharge to fund the replacement of gas iron mains. While the KCC stated that it  
18           “continues to find infrastructure replacement should be a priority”, it also found that that “the  
19           cost should be recovered through the legislatively-approved GSRS mechanism.”<sup>11</sup> The KCC  
20           went on to state that “...the GSRS was enacted by the legislature to reduce regulatory lag and

---

<sup>11</sup> Order in KCC Docket No. 12-KGSG-721-TAR, paragraph 27.

1 allow cost-recovery between rate cases. At this time, the Commission does not wish to  
2 eschew the legislature’s preferred mechanism for this situation.”<sup>12</sup> The Company’s filing in  
3 this case provides no new information that would result in a different finding by the KCC.

4 More recently, the KCC rejected a request by Atmos Energy, Inc. to implement a  
5 Regulatory Asset (“RA”) to defer the costs of infrastructure investment between base rate  
6 cases. Among other concerns, the KCC found that “...the RA proposed by Atmos...is  
7 furthermore unnecessary in light of the current GSRS Act as enacted by the legislature. The  
8 Commission finds the best method to implement an expansion to the GSRS Act is through  
9 the legislative process, not through a decision from this Commission in this case.”<sup>13</sup> Thus,  
10 the KCC has rejected two different kinds of enhanced recovery mechanisms—a surcharge on  
11 customer bills, and a regulatory asset that would preserve investment costs for recovery in a  
12 future rate case—in favor of continuing to utilize the GSRS to recover safety- and reliability-  
13 related investments.

14  
15 **Q. Isn’t the program proposed by Black Hills Kansas better defined than the Atmos**  
16 **program that the KCC recently rejected?**

17 **A.** Yes, it is. One of the concerns expressed by the KCC in the Atmos case was that the Atmos  
18 proposal was too broad and poorly defined. The program proposed by Black Hills Kansas is  
19 much more specific than the program that was rejected in the Atmos case. However, the  
20 KGS program, which was earlier rejected by the Commission, was also fairly well-defined.

---

12 Id., paragraph 28.

1 In addition, the Black Hills Kansas proposal contains at least one project, reconstruction of  
2 the Anadarko line, that clearly should not be subject to extraordinary ratemaking treatment.

3 Moreover, in the Atmos Order, the Commission expressed some interest in a  
4 roundtable discussion with the industry to explore legislative changes or other options for  
5 recovery of system integrity costs. Given the fact that the Atmos Order was issued only a  
6 week ago, as yet there has been no further discussion on the recovery of system integrity  
7 costs. Therefore, it would be premature for the Commission to approve a new regulatory  
8 mechanism in this case, given its earlier findings in both the KGS and Atmos rate  
9 proceedings.

10  
11 **Q. What do you recommend?**

12 A. I recommend that the KCC reject the Company's proposal to establish the APRR. The  
13 Kansas Legislature has already provided a mechanism to reduce regulatory lag associated  
14 with gas utility investment, the GSRS, and the Commission has twice expressed its belief  
15 that the legislature is the appropriate venue in which to seek modifications or replacements of  
16 the GSRS with a different mechanism. Further, the Company has not demonstrated why an  
17 additional mechanism is required. Accordingly, the Company's request should be denied.

18  
19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.

---

13 Order in KCC Docket No. 14-ATMG-320-RTS, paragraph 55.





## **APPENDIX A**

### **List of Prior Testimonies**

The Columbia Group, Inc., Testimonies of Andrea C. Crane

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Black Hills/Kansas Gas Utility Company	G	Kansas	14-BHCG-502-RTS	9/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	14-00158-UT	9/14	Renewable Energy Rider	Office of Attorney General
Public Service Company of New Mexico	E	New Mexico	13-00390-UT	8/14	Abandonment of San Juan Units 2 and 3	Office of Attorney General
Atmos Energy Company	G	Kansas	14-ATMG-320-RTS	5/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Rockland Electric Company	E	New Jersey	ER13111135	5/14	Revenue Requirements	Division of Rate Counsel
Kansas City Power and Light Company	E	Kansas	14-KCPE-272-RTS	4/14	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR13100885-906	3/14	Cable Rates	Division of Rate Counsel
New Mexico Gas Company	G	New Mexico	13-00231-UT	2/14	Merger Policy	Office of Attorney General
Water Service Corporation (Kentucky)	W	Kentucky	2013-00237	2/14	Revenue Requirements	Office of Attorney General
Oneok, Inc. and Kansas Gas Service	G	Kansas	14-KGSG-100-MIS	12/13	Plan of Reorganization	Citizens' Utility Ratepayer Board
Public Service Electric & Gas Company	E/G	New Jersey	EO13020155 GO13020156	10/13	Energy Strong Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	12-00350-UT	8/13	Cost of Capital, RPS Rider, Gain on Sale, Allocations	New Mexico Office of Attorney General
Westar Energy, Inc.	E	Kansas	13-WSEE-629-RTS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	13-115	8/13	Revenue Requirements	Division of the Public Advocate
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-447-MIS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Jersey Central Power & Light Company	E	New Jersey	ER12111052	6/13	Reliability Cost Recovery Consolidated Income Taxes	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	13-MKEE-447-MIS	5/13	Transfer of Certificate Regulatory Policy	Citizens' Utility Ratepayer Board
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-452-MIS	5/13	Formula Rates	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	12-450F	3/13	Gas Sales Rates	Attorney General
Public Service Electric and Gas Co.	E	New Jersey	EO12080721	1/13	Solar 4 All - Extension Program	Division of Rate Counsel
Public Service Electric and Gas Co.	E	New Jersey	EO12080726	1/13	Solar Loan III Program	Division of Rate Counsel
Lane Scott Electric Cooperative	E	Kansas	12-MKEE-410-RTS	11/12	Acquisition Premium, Policy Issues	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	12-KGSG-835-RTS	9/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	12-KCPE-764-RTS	8/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Woonsocket Water Division	W	Rhode Island	4320	7/12	Revenue Requirements	Division of Public Utilities and Carriers

The Columbia Group, Inc., Testimonies of Andrea C. Crane

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Atmos Energy Company	G	Kansas	12-ATMG-564-RTS	6/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	110258	5/12	Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company (Western)	E	Kansas	12-MKEE-491-RTS	5/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER11080469	4/12	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	12-MKEE-380-RTS	4/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	11-381F	2/12	Gas Cost Rates	Division of the Public Advocate
Atlantic City Electric Company	E	New Jersey	EO11110650	2/12	Infrastructure Investment Program (IIP-2)	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	11-384F	2/12	Gas Service Rates	Division of the Public Advocate
New Jersey American Water Co.	WWW	New Jersey	WR11070460	1/12	Consolidated Income Taxes Cash Working Capital	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	12-WSEE-112-RTS	1/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Puget Sound Energy, Inc.	E/G	Washington	UE-111048 UG-111049	12/11	Conservation Incentive Program and Others	Public Counsel
Puget Sound Energy, Inc.	G	Washington	UG-110723	10/11	Pipeline Replacement Tracker	Public Counsel
Empire District Electric Company	E	Kansas	11-EPDE-856-RTS	10/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable	C	New Jersey	CR11030116-117	9/11	Forms 1240 and 1205	Division of Rate Counsel
Artesian Water Company	W	Delaware	11-207	9/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS (Remand)	7/11	Rate Case Costs	Citizens' Utility Ratepayer Board
Midwest Energy, Inc.	G	Kansas	11-MDWE-609-RTS	7/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power & Light Company	E	Kansas	11-KCPE-581-PRE	6/11	Pre-Determination of Ratemaking Principles	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	10-421	5/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company	E	Kansas	11-MKEE-439-RTS	4/11	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
South Jersey Gas Company	G	New Jersey	GR10060378-79	3/11	BGSS / CIP	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	10-296F	3/11	Gas Service Rates	Division of the Public Advocate
Westar Energy, Inc.	E	Kansas	11-WSEE-377-PRE	2/11	Pre-Determination of Wind Investment	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	10-295F	2/11	Gas Cost Rates	Attorney General

The Columbia Group, Inc., Testimonies of Andrea C. Crane

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Delmarva Power and Light Company	G	Delaware	10-237	10/10	Revenue Requirements Cost of Capital	Division of the Public Advocate
Pawtucket Water Supply Board	W	Rhode Island	4171	7/10	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey Natural Gas Company	G	New Jersey	GR10030225	7/10	RGGI Programs and Cost Recovery	Division of Rate Counsel
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atmos Energy Corp.	G	Kansas	10-ATMG-495-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	10-EPDE-314-RTS	3/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	09-414 and 09-276T	2/10	Cost of Capital Rate Design Policy Issues	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	09-385F	2/10	Gas Cost Rates	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	09-398F	1/10	Gas Service Rates	Division of the Public Advocate
Public Service Electric and Gas Company	E	New Jersey	ER09020113	11/09	Societal Benefit Charge Non-Utility Generation Charge	Division of Rate Counsel
Delmarva Power and Light Company	G	Delaware	09-277T	11/09	Rate Design	Division of the Public Advocate
Public Service Electric and Gas Company	E/G	New Jersey	GR09050422	11/09	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	09-MKEE-969-RTS	10/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy, Inc.	E	Kansas	09-WSEE-925-RTS	9/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08050326 EO08080542	8/09	Demand Response Programs	Division of Rate Counsel
Public Service Electric and Gas Company	E	New Jersey	EO09030249	7/09	Solar Loan II Program	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	09-MDWE-792-RTS	7/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy and KG&E	E	Kansas	09-WSEE-641-GIE	6/09	Rate Consolidation	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	09-60	6/09	Cost of Capital	Division of the Public Advocate
Rockland Electric Company	E	New Jersey	GO09020097	6/09	SREC-Based Financing Program	Division of Rate Counsel
Tidewater Utilities, Inc.	W	Delaware	09-29	6/09	Revenue Requirements Cost of Capital	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	08-269F	3/09	Gas Service Rates	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	08-266F	2/09	Gas Cost Rates	Division of the Public Advocate

The Columbia Group, Inc., Testimonies of Andrea C. Crane

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Kansas City Power & Light Company	E	Kansas	09-KCPE-246-RTS	2/09	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08090840	1/09	Solar Financing Program	Division of Rate Counsel
Atlantic City Electric Company	E	New Jersey	EO06100744 EO08100875	1/09	Solar Financing Program	Division of Rate Counsel
West Virginia-American Water Company	W	West Virginia	08-0900-W-42T	11/08	Revenue Requirements	The Consumer Advocate Division of the PSC
Westar Energy, Inc.	E	Kansas	08-WSEE-1041-RTS	9/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Artesian Water Company	W	Delaware	08-96	9/08	Cost of Capital, Revenue, New Headquarters	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR08020113	9/08	Form 1205 Equipment & Installation Rates	Division of Rate Counsel
Pawtucket Water Supply Board	W	Rhode Island	3945	7/08	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey American Water Co.	WWW	New Jersey	WR08010020	7/08	Consolidated Income Taxes	Division of Rate Counsel
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Revenue Requirements	Division of Rate Counsel
Kansas Electric Power Cooperative, Inc.	E	Kansas	08-KEPE-597-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	EX02060363 EA02060366	5/08	Deferred Balances Audit	Division of Rate Counsel
Cablevision Systems Corporation	C	New Jersey	CR07110894, et al.	5/08	Forms 1240 and 1205	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	08-MDWE-594-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	07-246F	4/08	Gas Service Rates	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR07100717-946	3/08	Form 1240	Division of Rate Counsel
Generic Commission Investigation	G	New Mexico	07-00340-UT	3/08	Weather Normalization	New Mexico Office of Attorney General
Southwestern Public Service Company	E	New Mexico	07-00319-UT	3/08	Revenue Requirements Cost of Capital	New Mexico Office of Attorney General
Delmarva Power and Light Company	G	Delaware	07-239F	2/08	Gas Cost Rates	Division of the Public Advocate
Atmos Energy Corp.	G	Kansas	08-ATMG-280-RTS	1/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

## **APPENDIX B**

### **Supporting Schedules**

## BLACK HILLS ENERGY

TEST YEAR ENDED DECEMBER 31, 2013

## REVENUE REQUIREMENT SUMMARY

	Company Claim (A)	Recommended Adjustment	Recommended Position	
1. Pro Forma Rate Base	\$131,193,233	\$2,617,786	\$128,575,447	(B)
2. Required Cost of Capital	7.52%	-0.93%	6.59%	(C)
3. Required Return	\$9,868,355	(\$1,394,304)	\$8,474,051	
4. Operating Income @ Present Rates	5,468,381	2,168,878	7,637,259	(D)
5. Operating Income Deficiency	\$4,399,974	(\$3,563,182)	\$836,792	
6. Revenue Multiplier	1.6543		1.6543	
7. Revenue Increase	<u>\$7,278,700</u>	<u>(\$5,894,428)</u>	<u>\$1,384,271</u>	
8. GSRS Revenue Included by Company	2,229,412		2,229,412	(E)
9. Base Rate Impact	<u>\$9,508,112</u>	<u>(\$5,894,428)</u>	<u>\$3,613,683</u>	

## Sources:

(A) Derived from Company Filing, Section 3.

(B) Schedule ACC-3.

(C) Schedule ACC-2.

(D) Schedule ACC-9.

(E) Company Workpapers, Revenue Annualization Adjustment.

Schedule ACC-2

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**REQUIRED COST OF CAPITAL**

	Capital Structure	Cost Rate		Weighted Cost
	(A)			
1. Common Equity	50.34%	8.75%	(B)	4.40%
2. Long Term Debt	49.66%	4.40%	(A)	2.19%
3. Total Cost of Capital	100.00%			<u>6.59%</u>

Sources:

(A) Company Filing, Section 7,

(B) Testimony of Dr. Woolridge, Exhibit JRW-1.



**BLACK HILLS ENERGY****TEST YEAR ENDED DECEMBER 31, 2013****RATE BASE SUMMARY**

	<u>Company Claim</u> (A)	<u>Recommended Adjustment</u>		<u>Recommended Position</u>
1. Utility Plant in Service	\$241,734,776	(\$173,810)	(B)	\$241,560,966
Less:				
2. Accumulated Depreciation	<u>(93,887,117)</u>	<u>(1,199,889)</u>	(C)	<u>(95,087,006)</u>
3. Net Utility Plant	\$147,847,659	(\$1,373,699)		\$146,473,960
Plus:				
4. Construction Work In Progress	\$0	\$0		\$0
5. Materials and Supplies	948,379	0		948,379
6. Gas Storage	2,980,645	0		2,980,645
7. Prepayments	389,491	0		389,491
8. Working Capital	724,090	(724,090)	(D)	0
Less:				
9. Customer Advances	(\$541,465)	\$0		(\$541,465)
10. Customer Deposits	(1,552,797)	0		(1,552,797)
11. Reserves for Inj. And Damages	(811,616)	0		(811,616)
12. Unclaime Check Reserves	(192)	0		(192)
13. Acc. Deferred Income Taxes	<u>(18,790,961)</u>	<u>(519,997)</u>	(E)	<u>(19,310,958)</u>
14. Total Rate Base	<u><b>\$131,193,233</b></u>	<u><b>(\$2,617,786)</b></u>		<u><b>\$128,575,447</b></u>

## Sources:

- (A) Company Filing, Section 3.
- (B) Schedule ACC-4 and Schedule ACC-5.
- (C) Schedule ACC-6.
- (D) Schedule ACC-8.
- (E) Schedule ACC-7.

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**POST TEST YEAR ADDITIONS**

1. Actual Plant In Service @ June 30, 2014	\$241,560,966	(A)
2. Company Claim Excluding Gas Management System	<u>241,188,581</u>	(B)
3. Recommended Adjustment	<u>\$372,385</u>	

Sources:

(A) Response to KCC-206.

(B) Company Filing, Section 3, Schedule 2, Page 1.

Schedule ACC-4

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**GAS MANAGEMENT SYSTEM**

1. Company Claim	\$546,195	(A)
2. Recommended Adjustment	<u>(\$546,195)</u>	

Sources:

(A) Company Filing, Section 3, Schedule 2, page 1.

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**ACCUMULATED DEPRECIATION**

1. Actual Accumulated Depreciation @ June 30, 2014	(\$95,087,006)	(A)
2. Company Claim	<u>(93,887,117)</u>	(B)
3. Recommended Adjustment	<u>(\$1,199,889)</u>	

**Sources:**

(A) Response to KCC-206.

(B) Company Filing, Section 3, Schedule 2, Page 1.

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**ACCUMULATED DEFERRED INCOME TAXES**

1. Actual ADIT Balance at June 30, 2014	(\$19,310,958)	(A)
2. Company Claim	<u>(18,790,961)</u>	(B)
3. Recommended Adjustment	<u>(\$519,997)</u>	

Sources:

(A) Response to KCC-264.

(B) Company Filing, Section 3, Schedule 1 Page 1.

Schedule ACC-8

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**CASH WORKING CAPITAL**

1. Company Claim	724,090	(A)
2. Recommended Adjustment	<u>(\$724,090)</u>	

Sources:

(A) Company Filing, Section 3, Schedule 1, page 1.

**BLACK HILLS ENERGY****TEST YEAR ENDED DECEMBER 31, 2013****OPERATING INCOME SUMMARY**

		Schedule No.
1. Company Claim	\$5,468,381	1
Recommended Adjustments:		
2. Pro Forma Revenue	\$70,221	10
3. Anadarko Revenue Margin	362,639	11
4. Salary and Wage Expense	244,441	12
5. Incentive Compensation Expense	868,445	13
6. Payroll Tax Expense (Rate)	3,918	14
7. Payroll Tax Expense (Exp. Adjs.)	85,136	15
8. Employee Benefits Expense	96,676	16
9. Pension Expense	146,664	17
10. OPEB Expense	9,850	18
11. SERP Expense	129,926	19
12. Future Track Program Expense	148,688	20
13. Uncollectible Expense	8,707	21
14. Gas Management System Expense	57,321	22
15. Meals and Entertainment Expense	33,213	23
16. Miscellaneous Expenses	996	24
17. Depreciation Expense	(75,331)	25
18. Interest Synchronization	(22,633)	26
19. Operating Income	<u>\$7,637,259</u>	

**BLACK HILLS ENERGY****TEST YEAR ENDED DECEMBER 31, 2013****PRO FORMA REVENUE**

		<u>Residential Revenue</u>	
1. Pro Forma Residential Margin Per Customer		312.46	(A)
2. Test Year Growth		<u>374</u>	(B)
3. Pro Forma Revenue Adjustment		\$116,861	
4. Uncollectible Expense	0.596%	<u>697</u>	(C)
5. Net Revenue Adjustment		\$116,164	
6. Income Taxes @	39.55%	<u>45,943</u>	
7. Operating Income Impact		<u><b>\$70,221</b></u>	

**Sources:**

(A) Derived from Company Filing, Section 17.

(B) Reflects growth from fiscal year 2012 to fiscal year 2013,  
per Company Revenue Workpapers.

(C) Uncollectible rate per Schedule ACC-21.



BLACK HILLS ENERGY

TEST YEAR ENDED DECEMBER 31, 2013

ANADARKO REVENUE MARGIN

	<u>Revenue</u>	
1. [REDACTED]		(A)
2. [REDACTED]		(B)
3. [REDACTED]		
4. [REDACTED]		(C)
5. Net Revenue Adjustment	\$599,898	
6. Income Taxes @	39.55% <u>237,260</u>	
7. Operating Income Impact	<u><b>\$362,639</b></u>	

Sources:

(A) Response to KCC-257.

(B) Company Filing, Section 3, Schedule 2, page 9.

(C) Uncollectible rate per Schedule ACC-21.

**BLACK HILLS ENERGY****TEST YEAR ENDED DECEMBER 31, 2013****SALARIES AND WAGES**

1. Annualized Payroll Excl. Vacancies	\$14,271,345	(A)
2. Company Claim	<u>14,790,033</u>	(B)
3. Total Recommended Adjustment	\$518,688	
4. Expense Ratio	<u>77.96%</u>	(A)
5. Expense Adjustment	\$404,369	
6. Income Taxes @	39.55% <u>159,928</u>	
7. Operating Income Impact	<u>\$244,441</u>	

**Sources:**

(A) Derived from Company Workpapers to Adjustment IS-6.

(B) Company Workpapers to Adjustment IS-6.

**BLACK HILLS ENERGY****TEST YEAR ENDED DECEMBER 31, 2013****INCENTIVE COMPENSATION EXPENSE**

	(A)	(B)	
1. Annual Incentive Plan	\$884,680	60.00%	\$530,808
2. Restricted Stock Awards	265,490	100.00%	265,490
3. Performance Share Awards	\$381,140	100.00%	381,140
4. Short-Term Incentive Plan	431,992	60.00%	259,195
5. Total Recommended Adjustment			\$1,436,633
6. Income Taxes @	39.55%		568,188
7. Operating Income Impact			<u>\$868,445</u>

## Sources:

(A) Response to CURB-91.

(B) Based on percentage of financial parameters. See Direct Testimony of Ms. Crane.

**BLACK HILLS ENERGY****TEST YEAR ENDED DECEMBER 31, 2013****PAYROLL TAX EXPENSE-RATE**

1. Company Expense Adjustment	\$1,012,606	(A)
2. Statutory Tax Rate	<u>7.65%</u>	(B)
3. Pro Forma Income Tax Adjustment	\$77,464	
4. Company Claim	<u>83,945</u>	(A)
5. Recommended Adjustment	\$6,481	
6. Income Tax 39.55%	<u>2,563</u>	
7. Operating Income	<u><b>\$3,918</b></u>	

**Sources:**

(A) Company Workpapers, Adjustment IS-6.

(B) Reflects statutory rate.

**BLACK HILLS ENERGY****TEST YEAR ENDED DECEMBER 31, 2013****PAYROLL TAX EXPENSE - EXPENSE ADJUSTMENTS**

1. Payroll Expense Adjustment		\$404,369	(A)
2. Incentive Compensation Adjustment		<u>1,436,633</u>	(B)
3. Total Expense Adjustments		\$1,841,002	
4. Statutory Tax Rate		<u>7.65%</u>	(C)
5. Total Recommended Adjustment		\$140,837	
6. Income Taxes @	39.55%	<u>55,701</u>	
7. Operating Income		<u>\$85,136</u>	

## Sources:

(A) Schedule ACC-12.

(B) Schedule ACC-13.

(C) Based on Statutory Tax Rate.

Schedule ACC-16

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**EMPLOYEE BENEFITS EXPENSE**

1. Salary and Wage Expense Adjustment	\$404,369	(A)
2. Benefits Ratio	<u>39.55%</u>	(B)
3. Total Benefits Expense Adjustment	\$159,928	
4. Income Taxes @	39.55%	<u>63,252</u>
5. Operating Income Impact	<u>\$96,676</u>	

Sources:

(A) Schedule ACC-12.

(B) Company Filing, Workpapers to IS-6.

Schedule ACC-17

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**PENSION EXPENSE**

1. Actual Pension Expense - Jan.-June 2014	\$515,619	(A)
2. Company Claim	<u>758,240</u>	(A)
3. Recommended Adjustment	\$242,621	
4. Income Taxes @	39.55% <u>95,957</u>	
5. Operating Income Impact	<u>\$146,664</u>	

Sources:

(A) Response to KCC-178.

Schedule ACC-18

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**OTHER POST EMPLOYMENT BENEFIT EXPENSE**

1. Actual OPEB Expenses - Jan.-June 2014	\$132,219	(A)
2. Company Claim	<u>148,514</u>	(A)
3. Recommended Adjustment	\$16,295	
4. Income Taxes @ 39.55%	<u>6,445</u>	
5. Operating Income Impact	<u><b>\$9,850</b></u>	

Sources:

(A) Response to KCC-179.



Schedule ACC-19

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**SUPPLEMENTAL EXECUTIVE RETIREMENT PROGRAM EXPENSE**

1. Pro Forma Expense Adjustment		\$214,932	(A)
2. Income Taxes @	39.55%	<u>85,006</u>	
3. Operating Income Impact		<u>\$129,926</u>	

Sources:

(A) Response to CURB-19.

**BLACK HILLS ENERGY**

**TEST YEAR ENDING SEPTEMBER 30, 2013**

**FUTURE TRACK PROGRAM EXPENSE**

1. Recommended Adjustment		\$245,968	(A)
2. Income Taxes @	39.55%	<u>97,280</u>	
3. Operating Income Impact		<u>\$148,688</u>	

Sources:

(A) Company Filing, Section 3, Schedule 2, page 19.

Schedule ACC-21

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**UNCOLLECTIBLE EXPENSE**

1. Adjusted Test Year Revenues	\$110,395,158	(A)
2. Three Year Average	<u>0.596%</u>	(B)
3. Pro Forma Interest Expense	\$658,275	
4. Company Claim	<u>672,679</u>	(B)
5. Recommended Adjustment	\$14,404	
6. Income Taxes @ 39.55%	<u>5,697</u>	
7. Operating Income Impact	<u><b>\$8,707</b></u>	

Sources:

(A) Company Filing, Section 3, Schedule 2, Page 3.

(B) Based on Company Workpaper to IS-14.

**ATMOS ENERGY CORPORATION**

**INJURIES AND DAMAGES EXPENSES**

**GAS MANAGEMENT SYSTEM EXPENSE**

1. Recommended Adjustment	\$94,824	(A)
2. Income Taxes @ 39.55%	<u>37,503</u>	(A)
3. Operating Income Impact	<u>\$57,321</u>	

Sources:

(A) Company filing, Section 3, Schedule 2, page 17.

**BLACK HILLS ENERGY**

**TEST YEAR ENDING SEPTEMBER 30, 2013**

**MEALS AND ENTERTAINMENT EXPENSE**

1. Total Recommended Adjustment	\$54,943	(A)
2. Income Taxes @	39.55% <u>21,730</u>	(B)
3. Operating Income Impact	<u>\$33,213</u>	

Sources:

(A) Response to CURB-43.

**BLACK HILLS ENERGY**

**TEST YEAR ENDING SEPTEMBER 31, 2013**

**MISCELLANEOUS EXPENSES**

1. Golf/Country Club Charges	\$1,023	(A)
2. Sporting Events	625	(A)
3. Scholarship Adjustment	<u>639</u>	(B)
4. Recommended Adjustment	\$1,648	
5. Income Taxes @ 39.55%	<u>652</u>	
6. Operating Income Impact	<u>\$996</u>	

Sources:

(A) Derived from the response to KCC-75.

(B) Response to CURB-160.

Schedule ACC-25

**BLACK HILLS ENERGY**

**TEST YEAR ENDING SEPTEMBER 30, 2013**

**DEPRECIATION EXPENSE**

1. Annualized Depreciation Expense	\$5,946,531	(A)
2. Per Company Claim	<u>5,821,914</u>	(B)
3. Recommended Adjustment (\$)	\$124,617	
4. Income Taxes @ 39.55%	<u>49,286</u>	
5. Operating Income Impact	<u>\$75,331</u>	

Sources:

(A) Response to KCC-205.

(B) Company Workpaper to IS-16.

Schedule ACC-26

**BLACK HILLS ENERGY**

**TEST YEAR ENDED DECEMBER 31, 2013**

**INTEREST SYNCHRONIZATION**

1. Pro Forma Rate Base	\$128,575,447	(A)
2. Weighted Cost of Debt	<u>2.19%</u>	(B)
3. Pro Forma Interest Expense	\$2,810,781	
4. Company Claim	<u>2,868,008</u>	(C)
5. Adjustment to Interest Expense	(\$57,227)	
6. Income Taxes @	39.55%	<u>(\$22,633)</u>

Sources:

(A) Schedule ACC-1.

(B) Schedule ACC-2.

(C) Company Filing, Section 11, Schedules 2 & 3, page 1.



**BLACK HILLS ENERGY****TEST YEAR ENDED DECEMBER 31, 2013****INCOME TAX FACTOR**

1. Revenue	100.00%	
2. State Income Tax Rate	<u>7.00%</u>	(A)
3. Federal Taxable Income	93.00%	
4. Income Taxes @ 35%	<u>32.55%</u>	(A)
5. Operating Income	60.45%	
6. Total Tax Rate	<u>39.55%</u>	(B)
7. Revenue Multiplier	<u>1.6543</u>	(C)

## Sources:

(A) Reflects statutory rates.

(B) Line 2 + Line 4.

**BLACK HILLS ENERGY****TEST YEAR ENDED DECEMBER 31, 2013****REVENUE REQUIREMENT IMPACT OF ADJUSTMENTS**

1. Rate of Return	(\$2,021,130)
Rate Base Adjustments:	
2. Utility Plant in Service	40,600
3. Gas Management System	(59,550)
4. Accumulated Depreciation	(130,821)
5. Accumulated Deferred Income Tax	(56,694)
6. Cash Working Capital	(78,946)
Operating Income Adjustments	
7. Pro Forma Revenue	(116,164)
8. Anadarko Revenue Margin	(599,898)
9. Salary and Wage Expense	(404,369)
10. Incentive Compensation Expense	(1,436,633)
11. Payroll Tax Expense (Rate)	(6,481)
12. Payroll Tax Expense (Exp. Adjs.)	(140,837)
13. Employee Benefits Expense	(159,928)
14. Pension Expense	(242,621)
15. OPEB Expense	(16,295)
16. SERP Expense	(214,932)
17. Future Track Program Expense	(245,968)
18. Uncollectible Expense	(14,404)
19. Gas Management System Expense	(94,824)
20. Meals and Entertainment Expense	(54,943)
21. Miscellaneous Expenses	(1,648)
22. Depreciation Expense	124,617
23. Interest Synchronization	37,441
24. Total Recommended Adjustments	(\$5,894,428)
25. Company Claim	<u>7,278,700</u>
26. Recommended Revenue Increase	<u><b>\$1,384,271</b></u>

## BLACK HILLS ENERGY

TEST YEAR ENDED DECEMBER 31, 2013

## PRO FORMA INCOME STATEMENT

	Per Company	Recommended Adjustments	Pro Forma Present Rates	Recommended Rate Adjustment	Pro Forma Proposed Rates
1. Operating Revenues	\$110,395,158	\$716,063	\$111,111,221	\$1,384,271	\$112,495,492
2. Operating Expenses	91,735,103	(2,886,565)	88,848,538	0	88,848,538
3. Depreciation and Amortization	5,868,745	124,617	5,993,362	0	5,993,362
4. Taxes Other Than Income	5,621,610	(147,317)	5,474,293	0	5,474,293
5. Taxable Income Before Interest Expenses	\$7,169,700	\$3,625,328	\$10,795,028	\$1,384,271	\$12,179,299
6. Interest Expense	2,870,651	(57,227)	2,813,424		2,813,424
7. Taxable Income	\$4,299,049	\$3,682,555	\$7,981,604	\$1,384,271	\$9,365,875
8. Income Taxes @ 39.55%	1,701,319	1,456,450	3,157,769	547,479	3,705,249
9. Operating Income	\$5,468,381	\$2,168,878	\$7,637,259	\$836,792	\$8,474,051
10. Rate Base	\$131,193,233		\$128,575,447		\$128,575,447
11. Rate of Return	<u>4.17%</u>		<u>5.94%</u>		<u>6.59%</u>

**APPENDIX C**  
**Referenced Data Requests:**

**CURB-9**  
**CURB-16**  
**CURB-17**  
**CURB-19\***  
**CURB-22**  
**CURB-43**  
**CURB-61**  
**CURB-75**  
**CURB-82\***  
**CURB-83\***  
**CURB-86**  
**CURB-91**  
**CURB-133**  
**CURB-140\***  
**CURB-160**

**KCC-75**  
**KCC-146**  
**KCC-178**  
**KCC-179**  
**KCC-190**  
**KCC-205**  
**KCC-206**  
**KCC-255**  
**KCC-257\***  
**KCC-264**  
**KCC-280**

**\* Confidential Responses Not Provided**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-9**

DATE OF REQUEST: 5/28/2014  
DATE RESPONSE DUE: 6/18/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Ann Stichler  
DATE RESPONDED: 6/17/2014  
SUBJECT: Salary and Wage Increases  
REFERENCE: CURB-9

**REQUEST:**

Provide the percentage of salary and wage increases granted in each of the last five years, as well as any increases in 2014 to date. Please provide this information separately for union and non-union personnel.

**RESPONSE:**

Please see the attached file.

**ATTACHMENT(S):**

CURB-9 Salary and Wage Increases.xlsx

### **Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Citizens' Utility Ratepayers Board any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: June 17, 2014**

## Non-Union Increases

CURB-9

Overall Black Hills Corporation Average Percentage Increases by Year:

2009	2.9%
2010	2.8%
2011	2.9%
2012	3.0%
2013	3.2%
2014	3.3%

Black Hills Kansas Average Percentage Increases by Year:

2009	3.0%
2010	2.8%
2011	2.7%
2012	3.0%
2013	3.1%
2014	3.2%

## Union Increases

Black Hills Kansas CWA #6407 Average Percentage Increases by Year (and Effective Date):

1/1/2009	3.0%
1/1/2010	3.0%
1/1/2011	2.5%
11/28/2011	3.0%
1/1/2013	2.4%
1/1/2014	3.0%

Black Hills Iowa IBEW #204 Average Percentage Increases by Year (and Effective Date):

4/28/2009	3.2%
2010	0.0%
8/1/2011	3.0%
8/1/2012	3.0%
8/1/2013	2.7%

Black Hills Nebraska IBEW #244 Average Percentage Increases by Year (and Effective Date):

1/1/2009	3.0%
2010	0.0%
3/7/2011	2.7%
3/13/2012	2.8%
3/13/2013	3.0%
3/13/2014	3.0%

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC**  
**d/b/a BLACK HILLS ENERGY**  
**DOCKET NO. 14-BHCG-502-RTS**  
**CITIZENS' UTILITY RATEPAYER BOARD ("CURB")**  
**DATA REQUEST NO. CURB-16**

DATE OF REQUEST: 5/28/2014  
DATE RESPONSE DUE: 6/18/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Kathi Buescher  
DATE RESPONDED: 6/17/2014  
SUBJECT: Incentive Programs  
REFERENCE: CURB-16

**REQUEST:**

Describe any changes to employee incentive programs over the past five years or that are projected for the future.

**RESPONSE:**

Aquila employees were covered by the Variable Compensation Plan through the 2008 Plan year which was paid out in 2009. The Black Hills Corporation Unified Incentive Plan replaced the Variable Compensation Plan for the 2009 Plan year, paid out in 2010. The Unified Incentive Plan was renamed the Annual Incentive Plan in 2012.

Major changes:

<b>Aquila Variable Compensation Plan</b>	<b>Black Hills Corporation Unified Incentive Plan / Annual Incentive Plan</b>
For non-union employees only	Includes union employees
<p>Had five different incentive target percentages, based on Variable Compensation Band:</p> <p><b>Band A</b> – non-exempt, specialized administrative and/or operational skills</p> <p><b>Band B</b> – Professional knowledge and experience</p> <p><b>Band C</b> – Expert in professional area or management responsibilities</p>	<ul style="list-style-type: none"> <li>• Target incentive percentage for all union employees is a maximum of 3% of covered wages.</li> <li>• Target incentive percentage for non-union positions is tied to salary grade:  <b>Grades 3-9: 6%</b>  <b>Grades 10-12: 8%</b>  <b>Grades 13-16: 10%</b>  <b>Grades 17-18: 12%</b></li> </ul>



<b>Band D – Leadership of a major area within a function</b> <b>Executives – employees nominated to executive status</b>	<b>Grade 19: 15%</b> <b>Grades 20 &amp; above are in the Officers' Short-term Incentive Plan</b> <ul style="list-style-type: none"><li>• Non-union employees can earn up to a maximum of 150% of the Target Percentage</li></ul>
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To the best of my knowledge no future incentive plan changes are planned.

**ATTACHMENT(S):**

None

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Citizens' Utility Ratepayer Board any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: June 17, 2014**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO.  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-17**

DATE OF REQUEST: 5/28/2014  
DATE RESPONSE DUE: 6/18/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Ann Stichler and Kris Pontious  
DATE RESPONDED: 6/17/2014  
SUBJECT: Incentive - Officer  
REFERENCE: CURB-17

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**REQUEST:**

Identify and quantify all officer compensation by component, including incentive awards and bonuses, paid in each of the past three years and indicate the portion of each component that is included in the Company's proposed revenue requirement.

**RESPONSE:**

Please see the table below for officer compensation allocated to Kansas for the years 2011-2013 and the pro forma test year. Please note that the compensation provided is an estimate only; general ledger does not track compensation by person.

Regarding Base Salaries, please note the decline in Test Year Base Salaries is due to various organizational changes that resulted in lower allocated payroll. For example, the responsibilities of one officer expanded to include electric utilities, thereby assigning the costs of his position to more operations, and lower costs to Black Hills Kansas. As a second example, the leader of Gas Supply Services is now filled by a director level employee instead of a vice president, so the base salary formerly considered officer base payroll in 2011-2013 is no longer included in the test year.

The increase in incentive costs beginning in 2013 and the test year is due to Performance Plan awards.

	<u>Base Salaries</u>	<u>Incentive Awards/ Bonuses</u>
2011	\$379,773	\$215,763
2012	\$421,368	\$134,786
2013	\$414,771	\$570,943
Test Year	\$295,501	\$632,215

ATTACHMENT(S):

None

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: June 17, 2014**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-22**

DATE OF REQUEST: 5/28/2014  
 DATE RESPONSE DUE: 6/18/2014  
 REQUESTOR: CURB  
 AUDITOR:  
 ANSWERED BY: Jeff Thomas  
 DATE RESPONDED: 6/17/2014  
 SUBJECT: Pension Expense / FAS 106  
 REFERENCE: CURB-22

**REQUEST:**

Provide a history of a) pension expense and b) FAS 106 expense recovered in utility rates for each of the past ten year years.

**RESPONSE:**

Black Hills does not have records of Aquila's pension expense prior to the acquisition in 2008: The following is a summary of the pension and FAS 106 expenses charged to FERC account 926000 for BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC operations from 2008 through 2013, starting with 2013 and later years:

BU	BHKSG								
FERC	926000								
Sum of Sum Total Amt			Year						
Resource	Resource Desc		2013	2012	2011	2010	2009	2008	
1710	PENSION EMPLOYER SHARE		1,510,350.35	1,127,289.38	557,428.70	598,109.31	679,040.69	786,648.68	
1719	BENEFITS SFAS 106 OPRB		293,149.92	328,909.68	244,532.82	279,627.24	142,778.29	255,922.65	

- a) equals resource 1710
- b) equals resource 1719

ATTACHMENT(S):

None

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Citizens' Utility Ratepayer Board any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: June 17, 2014**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-43**

DATE OF REQUEST: 5/28/2014  
DATE RESPONSE DUE: 6/18/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Jeff Thomas  
DATE RESPONDED: 6/17/2014  
SUBJECT: Meal Expenses  
REFERENCE: CURB-43

REQUEST:

Provide the amount of meals expenses included in the test year but disallowed for tax purposes.

RESPONSE:

Meals are coded to Resource 1604. The filing includes \$109,855.61 in meals expense. See the attached schedule "CURB 43 Meals" for a summary of charges by FERC account.

ATTACHMENT(S):

Excel file: CURB – 43 Meals

### **Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Citizens' Utility Ratepayer Board any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: June 17, 2014**

BU	BHKSG
Year	2013
Bal/Inc	I
Resource	1604

Sum of Sum Total Amt

Resource Desc	Account	Total
MEALS - 50% TAX DEDUCT	850000	141.58
	856000	44.96
	863000	388.07
	867000	206.07
	870000	2,687.96
	874000	1,100.63
	874001	74.81
	874002	1,945.16
	875000	113.23
	875001	40.64
	876000	116.68
	878000	25.05
	878001	12.69
	879000	263.89
	880000	24,816.21
	885000	40.62
	886000	68.52
	887000	171.66
	889000	472.79
	889001	18.03
	890000	28.49
	891000	157.87
	892000	13.66
	893000	1,703.00
	894000	135.54
	901000	735.75
	902000	56.06
	903000	1,986.53
	903002	117.76
	905000	286.17
	907000	2,055.51
	908000	661.56
	910000	4.98
	912000	1,249.52
	916000	202.58
	921000	66,594.17
	925000	7.40
	930200	1,026.70
	935000	83.11
<b>Grand Total</b>		<b>109,855.61</b>



**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-61**

DATE OF REQUEST: 5/28/2014  
DATE RESPONSE DUE: 6/18/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Ann Stichler  
DATE RESPONDED: 6/17/2014  
SUBJECT: Vacancies  
REFERENCE: CURB-61

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REQUEST:

For each of the past 3 years, please identify a) vacancies among the approximately 134 employee positions at Black Hill Kansas and b) the length of time each such position was vacant.

RESPONSE:

Please see the attached file for job requisitions posted for Black Hills Kansas during 2011-2013. The listing reflects the date the positions were posted and the date the positions were filled. Please note that many of the positions are filled from within Black Hills Kansas, which often creates a succession of backfilling and additional requisitions.

ATTACHMENT(S):

CURB-7 Posted requisitions 2011-2013 BHKSG.xls

### **Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Citizens' Utility Ratepayer Board any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: June 17, 2014**

Job Req ID	Addition or Replacement	Bargaining Unit	Budget Department	Business Unit	Date Created	Full Time / Part Time	Job Code	Job Title	Regular / Temporary	Post End Date	Post Start Date	Location Code	Hired On	Status
441	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	12/5/2011	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	1/23/2012	1/13/2012	KS - Wichita/W Harry	2/21/2012	Filed
761	Replacement	001	KSG-Energy Dvr-Dodge City (5385)	BH Kansas Gas Utility Co LLC (50504)	12/16/2011	Full-time	O031	0031 - Tech Appliance Repair (Appliance Repair Technician)	Regular	2/8/2012	2/7/2012	KS - Dodge City	3/15/2012	Filed
801	Replacement	001	KSG-Energy Dvr-Garden City (5386)	BH Kansas Gas Utility Co LLC (50504)	12/19/2011	Full-time	O034	0034 - Tech Field Measurement (Field Measurement Technician)	Regular	1/31/2012	1/23/2012	KS - Garden City	3/6/2012	Filed
1261	Addition	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	1/25/2012	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	3/30/2012	3/19/2012	KS - Wichita/W Harry	4/27/2012	Filed
1784	Replacement	001	KSG-Energy Dvr-Garden City (5386)	BH Kansas Gas Utility Co LLC (50504)	2/17/2012	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	4/13/2012	3/27/2012	KS - Garden City	4/12/2012	Filed
1841	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	2/20/2012	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	4/2/2012	3/30/2012	KS - Wichita/N Hoover	4/12/2012	Filed
2321	Replacement	001	KSG-Energy Dvr-Goodland (5388)	BH Kansas Gas Utility Co LLC (50504)	3/27/2012	Full-time	O031	0031 - Tech Appliance Repair (Appliance Repair Technician)	Regular	6/14/2012	6/13/2012	KS - Goodland	6/28/2012	Filed
2701	Replacement	640	KSG-Energy Dvr-Ops-Lawrence (5383)	BH Kansas Gas Utility Co LLC (50504)	4/20/2012	Full-time	U141	U141 - Working Supervisor Inspector (UN6407)	Regular	5/8/2012	5/3/2012	KS - Lawrence/East 8th	5/15/2012	Filed
2741	Replacement	640	KSG-Energy Dvr-Ops-Lawrence (5383)	BH Kansas Gas Utility Co LLC (50504)	5/1/2012	Full-time	U126	U126 - Working Supervisor (UN6407)	Regular	5/31/2012	5/23/2012	KS - Lawrence/East 8th	5/31/2012	Filed
3051	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	6/26/2012	Full-time	O031	0031 - Tech Appliance Repair (Appliance Repair Technician)	Regular	7/13/2012	7/5/2012	KS - Wichita/N Hoover	7/13/2012	Filed
3241	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	7/12/2012	Full-time	O029	O029 - Spec Utility (Utility Specialist)	Regular	9/21/2012	9/5/2012	KS - Wichita/N Hoover	10/10/2012	Filed
3561	Replacement	001	KSG-Energy Dvr-Garden City (5386)	BH Kansas Gas Utility Co LLC (50504)	8/2/2012	Full-time	O029	O029 - Spec Utility (Utility Specialist)	Regular	8/31/2012	8/20/2012	KS - Garden City	9/28/2012	Filed
3681	Addition	001	KSG-Energy Dvr-Liberal (5387)	BH Kansas Gas Utility Co LLC (50504)	8/10/2012	Full-time	S267	S267 - Supv Gas Operations II (Operations Supervisor)	Regular	10/6/2012	9/21/2012	KS - Liberal/General Welch	11/12/2012	Filed
3801	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	8/29/2012	Full-time	O031	0031 - Tech Appliance Repair	Regular	10/27/2012	10/1/2012	KS - Wichita/N Hoover	11/27/2012	Filed
3841	Replacement	001	KSG-Energy Dvr-Southwest (5375)	BH Kansas Gas Utility Co LLC (50504)	8/30/2012	Full-time	S328	S328 - Mgr Gas Operations II (Operations Manager)	Regular	10/20/2012	10/9/2012	KS - Garden City	12/17/2012	Filed
4182	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	9/24/2012	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	11/11/2012	11/1/2012	KS - Wichita/N Hoover	11/16/2012	Filed
4301	Replacement	001	KSG-GM Headquarters (6108)	BH Kansas Gas Utility Co LLC (50504)	10/5/2012	Full-time	N019	N019 - Asst Administrative Sr	Regular	10/20/2012	10/9/2012	KS - Lawrence/East 9th	2/13/2013	Filed
4461	Replacement	001	KSG-Energy Dvr-Southwest (5375)	BH Kansas Gas Utility Co LLC (50504)	10/16/2012	Full-time	S045	S045 - Rep Construction I (Construction Coordinator)	Regular	11/24/2012	11/6/2012	KS - Liberal/General Welch	1/15/2013	Filed
4841	Replacement	001	KSG-Energy Dvr-Liberal (5387)	BH Kansas Gas Utility Co LLC (50504)	11/16/2012	Full-time	O014	O014 - Lead Tech Gas Operations (Lead Gas Operations Technician)	Regular	12/15/2012	12/5/2012	KS - Liberal/General Welch	1/11/2013	Filed
6021	Addition	001	KSG-Customer Relations (6185)	BH Kansas Gas Utility Co LLC (50504)	1/13/2013	Full-time	S233	S233 - Representative - Customer Relations	Regular	2/16/2013	2/15/2013	KS - Lawrence/East 9th	2/25/2013	Filed
6102	Replacement	001	KSG-Energy Dvr-Liberal (5387)	BH Kansas Gas Utility Co LLC (50504)	1/16/2013	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	3/22/2013	2/7/2013	KS - Hugoton	3/20/2013	Filed
6161	Replacement	001	KSG-Energy Dvr-Liberal (5387)	BH Kansas Gas Utility Co LLC (50504)	1/23/2013	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	3/22/2013	2/7/2013	KS - Liberal/General Welch	3/22/2013	Filed
6181	Replacement	001	KSG-Energy Dvr-Liberal (5387)	BH Kansas Gas Utility Co LLC (50504)	1/23/2013	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	4/13/2013	3/26/2013	KS - Liberal/General Welch	5/3/2013	Filed
6621	Replacement	001	KSG-Technical Serv-Business (7039)	BH Kansas Gas Utility Co LLC (50504)	2/19/2013	Full-time	O042	O042 - Tech Leak II (Leak Technician II)	Regular	3/18/2013	3/11/2013	KS - Wichita/N Hoover	3/26/2013	Filed
6823	Addition	1	KSG-Technical Serv-Business (7039)	BH Kansas Gas Utility Co LLC (50504)	2/19/2013	Full-time	S480	S480 - Supv Compliance	Regular	3/24/2013	3/8/2013	KS - Wichita/N Hoover	4/8/2013	Filed
6941	Replacement	001	KSG-Energy Dvr-Garden City (5386)	BH Kansas Gas Utility Co LLC (50504)	2/26/2013	Full-time	S267	S267 - Supv Gas Operations II	Regular	4/13/2013	3/26/2013	KS - Garden City	5/1/2013	Filed
7561	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	3/26/2013	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	4/17/2013	4/3/2013	KS - Wichita/N Hoover	4/22/2013	Filed
7701	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	3/28/2013	Full-time	O031	0031 - Appliance Repair Technician	Regular	4/17/2013	4/3/2013	KS - Wichita/N Hoover	4/28/2013	Filed
7721	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	3/28/2013	Full-time	S267	S267 - Supv Gas Operations II (Operations Supervisor)	Regular	4/17/2013	4/3/2013	KS - Wichita/N Hoover	5/3/2013	Filed
8101	Replacement	001	KSG-Energy Dvr-Liberal (5387)	BH Kansas Gas Utility Co LLC (50504)	4/15/2013	Full-time	O031	0031 - Appliance Repair Technician	Regular	5/18/2013	4/24/2013	KS - Liberal/General Welch	6/4/2013	Filed
8441	Addition	001	KSG-Energy Dvr-Trans-Wichita (5066)	BH Kansas Gas Utility Co LLC (50504)	5/3/2013	Full-time	S267	S267 - Supv Gas Operations II	Regular	8/3/2013	7/19/2013	KS - Wichita/N Hoover	8/7/2013	Filed
8281	Replacement	001	KSG-Energy Dvr-Trans-Wichita (5066)	BH Kansas Gas Utility Co LLC (50504)	4/23/2013	Full-time	O014	O014 - Lead Gas Operations Technician	Regular	5/12/2013	4/26/2013	KS - Wichita/N Hoover	6/3/2013	Filed
8282	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	4/23/2013	Full-time	O054	O054 - Tech Welder Operations	Regular	5/12/2013	4/26/2013	KS - Wichita/N Hoover	7/25/2013	Filed
8741	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	5/17/2013	Full-time	O036	0036 - Tech Gas Ops	Regular	8/17/2013	8/8/2013	KS - Wichita/N Hoover	10/3/2013	Filed
9181	Replacement	001	KSG-Energy Dvr-Dodge City (5385)	BH Kansas Gas Utility Co LLC (50504)	6/11/2013	Full-time	O031	0031 - Tech Appliance Repair	Regular	8/3/2013	7/26/2013	KS - Dodge City	8/13/2013	Filed
9281	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	6/24/2013	Full-time	O036	0036 - Tech Gas Ops	Regular	7/28/2013	7/9/2013	KS - Wichita/N Hoover	8/12/2013	Filed
9282	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	6/24/2013	Full-time	O036	0036 - Tech Gas Ops	Regular	8/4/2013	7/22/2013	KS - Wichita/N Hoover	9/4/2013	Filed
9861	Addition	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	7/26/2013	Full-time	S045	S045 - Rep Construction I (Construction Coordinator)	Regular	8/25/2013	8/5/2013	KS - Wichita/N Hoover	9/13/2013	Filed
9881	Addition	001	KSG-Energy Dvr-Southwest (5375)	BH Kansas Gas Utility Co LLC (50504)	7/29/2013	Full-time	S045	S045 - Rep Construction I (Construction Coordinator)	Regular	8/25/2013	8/5/2013	KS - Dodge City	9/3/2013	Filed
9882	Replacement	001	KSG-Energy Dvr-Southwest (5375)	BH Kansas Gas Utility Co LLC (50504)	7/29/2013	Full-time	N016	N016 - Asst Administrative I	Regular	8/28/2013	8/6/2013	KS - Garden City	9/12/2013	Filed
9921	Replacement	001	KSG-Energy Dvr-Ops-Lawrence (5383)	BH Kansas Gas Utility Co LLC (50504)	7/30/2013	Full-time	S443	S443 - Supv Gas Operations I	Regular	8/25/2013	8/6/2013	KS - Lawrence/East 9th	9/10/2013	Filed
10261	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	8/21/2013	Full-time	S045	S045 - Rep Construction I (Construction Coordinator)	Regular	9/10/2013	9/2/2013	KS - Wichita/N Hoover	9/13/2013	Filed
10641	Replacement	001	KSG-Energy Dvr-Dodge City (5385)	BH Kansas Gas Utility Co LLC (50504)	9/9/2013	Full-time	O014	O014 - Lead Tech Gas Operations	Regular	9/29/2013	9/13/2013	KS - Dodge City	9/30/2013	Filed
10701	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	9/11/2013	Full-time	N016	N016 - Asst Administrative I	Regular	10/12/2013	9/24/2013	KS - Wichita/N Hoover	11/12/2013	Filed
10942	Replacement	640	KSG-Energy Dvr-Ops-Lawrence (5383)	BH Kansas Gas Utility Co LLC (50504)	9/17/2013	Full-time	U085	U085 - Service Person Appl (UN6407)	Regular	10/19/2013	10/1/2013	KS - Lawrence/East 9th	11/14/2013	Filed
11062	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	9/23/2013	Full-time	O014	O014 - Lead Measurement Technician	Regular	10/12/2013	9/25/2013	KS - Wichita/N Hoover	10/18/2013	Filed
11341	Replacement	001	KSG-Energy Dvr-Dodge City (5385)	BH Kansas Gas Utility Co LLC (50504)	10/2/2013	Full-time	O036	0036 - Tech Gas Ops	Regular	10/23/2013	10/15/2013	KS - Dodge City	11/19/2013	Filed
11541	Replacement	001	KSG-Community Relations (6109)	BH Kansas Gas Utility Co LLC (50504)	10/16/2013	Full-time	S154	S154 - Prog Mgr External Affairs	Regular	11/6/2013	10/24/2013	KS - Wichita/N Hoover	12/17/2013	Filed
11881	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	10/29/2013	Full-time	O034	O034 - Tech Field Measurement	Regular	11/16/2013	10/31/2013	KS - Wichita/N Hoover	1/22/2014	Filed
12461	Replacement	001	KSG-Energy Dvr-Liberal (5387)	BH Kansas Gas Utility Co LLC (50504)	11/18/2013	Full-time	O036	0036 - Tech Gas Ops (Operations Technician)	Regular	12/14/2013	12/2/2013	KS - Meade	1/24/2014	Filed
12662	Replacement	001	KSG-Energy Dvr-Ops-Wichita (5384)	BH Kansas Gas Utility Co LLC (50504)	11/26/2013	Full-time	O036	0036 - Tech Gas Ops	Regular	12/10/2013	12/2/2013	KS - Wichita/N Hoover	2/7/2014	Filed
13221	Replacement	001	KSG-Energy Dvr-Garden City (5386)	BH Kansas Gas Utility Co LLC (50504)	12/18/2013	Full-time	O036	0036 - Tech Gas Ops	Regular	12/27/2013	12/19/2013	KS - Garden City	1/9/2014	Filed
13141	Replacement	001	KSG-Energy Dvr-Southwest (5375)	BH Kansas Gas Utility Co LLC (50504)	12/17/2013	Full-time	S328	S328 - Mgr Gas Operations II	Regular	1/3/2014	12/19/2013	KS - Garden City	1/31/2014	Filed
13181	Addition	001	KSG-Energy Dvr-Liberal (5387)	BH Kansas Gas Utility Co LLC (50504)	12/18/2013	Full-time	O036	0036 - Tech Gas Ops	Regular	1/4/2014	12/19/2013	KS - Hugoton	2/14/2014	Filed

**CURB-61  
2011**

Date Posted	Job Title	Department	Job Location	Req. Create Date	Hire Date
9/26/2011	Utility Specialist	BH Kansas Gas Utility Co LLC (504)	KS-Wichita/S Hoover (KS005)	8/22/2011	12/6/2011
9/29/2011	Operations Technician	BH Kansas Gas Utility Co LLC (504)	KS-Hugoton (KS002)	9/23/2011	11/10/2011
10/11/2011	Customer Service Associate - Field	BH Kansas Gas Utility Co LLC (504)	KS-Liberal/General Welch (KS011)	10/3/2011	11/11/2011
10/11/2011	Operations Technician	BH Kansas Gas Utility Co LLC (504)	KS-Wichita/W Harry (KS007)	10/7/2011	11/30/2011
10/31/2011	Welder/Operations Technician	BH Kansas Gas Utility Co LLC (504)	KS-Wichita/W Harry (KS007)	10/14/2011	12/6/2011

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-75**

DATE OF REQUEST: 5/28/2014  
DATE RESPONSE DUE: 6/18/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Jodi Culp  
DATE RESPONDED: 6/17/2014  
SUBJECT: Software Replacement  
REFERENCE: CURB-75

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**REQUEST:**

Please identify the new commercial software that is being implemented to replace the GasTrack System software, as discussed in Ms. Culp's Testimony and state if it is being implemented solely at Black Hill Kansas or in all Black Hills' companies. If the former, please identify the software/programs currently utilized in the other Black Hills' companies.

**RESPONSE:**

BHUH selected OpenLink as the Vendor, and Endur as the software system as replacement to BHUH's GasTrack system. This system will be used as BHUH's system of record for all core gas and hedging activity, and is not specific to BHE Kansas Gas.

**ATTACHMENT(S):**

None

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-86**

DATE OF REQUEST: 5/28/2014  
DATE RESPONSE DUE: 6/18/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Kathi Buescher  
DATE RESPONDED: 6/17/2014  
SUBJECT: Incentive Target Thresholds (Patterson Testimony)  
REFERENCE: CURB-86

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**REQUEST:**

Regarding page 14 of Ms. Patterson's Testimony, please identify the incentive target thresholds established in each of the past three years.

**RESPONSE:**

Please see attached pdf documents

**ATTACHMENT(S):**

CURB - 86 - 2013 Scorecard.pdf  
CURB - 86 - 2011 Scorecard.pdf  
CURB - 86 - 2012 Scorecard.pdf

**Scorecard #5K: Kansas Gas Utilities BU Operating Employees  
2013 Annual Incentive Plan**

Measurement Level	Performance Objectives & Measures	Weight	Performance Levels			Final Results	Goal % Achieved	Weighted Performance % Achieved
			Threshold (50%)	Target (100%)	Maximum (150%)			
			Corporate	<b>Financial</b> <b>Earnings Per Share - BKH</b> - 90% min / 110% max  <b>Aggregate Shared Services Costs* In Millions</b>	25%			
Business Unit	<b>Financial</b> <b>2013 Gas Utilities Total Operating Income (Direct only, aggregate of all gas utilities) In Millions</b>	25%	\$119.224	\$132.471	\$145.718		0.00%	0.00%
	<b>Operational Goals</b> <b>Safety - Kansas (TCIR)</b>	10%	1.8	1.4	0		0.00%	0.0%
	<b>Aggregate Safety - BHC (TCIR)</b>	10%	1.6	1.2	0.9		0.00%	0.0%
	<b>Customer Satisfaction</b> <b>JD Powers - Kansas Gas utilities residential average</b>	10%	608	618	628		0.00%	0.00%
	<b>Reliability</b> <b>Controllable Outages - all gas utilities</b>	10%	2	1	0		0.00%	0.00%
								<b>0.00%</b>

\* Shared Services total costs excludes Pooled Benefits and PAGS direct O&M costs

AIP Scorecard #5K Forecast Payout	Target Annual AIP %	Forecast Annual Incentive
Union	3%	0.00%
Job Grades 3-9	6%	0.00%
Job Grades 10-12	8%	0.00%
Job Grades 13-16	10%	0.00%
Job Grades 17-18	12%	0.00%
Job Grade 19	15%	0.00%

Scorecard owner: Wevik, Vancas

EPS - LP

Bahr, Miller Operating Income source

Fredrich - Reliability

Hanna/Phillips/Vancas - Safety Source

Winkelman - Customer Service Source

Scorecard 5K: 2012 Annual Incentive Plan								
Utilities Group								
Gas Utilities - Kansas Gas								
Measurement Level	Performance Objectives & Measures	Weight	Threshold 50% <i>Minimum Payout Performance</i>	Target 100% <i>Targeted Payout Performance</i>	Maximum 150% <i>Maximum Payout Performance</i>	Final Results	Final Goal % Achieved	Weighted Performance % Achieved
Corporate	<b>Financial</b> ■ Earnings Per Share - BKH 90% min / 110% max	30%	\$1.89	\$2.10	\$2.31	\$2.276	141.90%	42.57%
Business Unit	<b>Financial</b> ■ Gas Utilities Total Operating Income - In Millions	30%	\$60.732	\$67.479	\$74.228	\$66.179	90.37%	27.11%
	<b>Operational &amp; Customer Service</b>							
	■ Safety - Kansas Only (Total Case Incident Rate)	10%	3.5 (5 Incidents)	2.8 (4 Incidents)	2.1 (3 Incidents)	.8	150.00%	15.00%
	■ Safety - Aggregate BHC (Total Case Incident Rate)	10%	2.3	1.8	1.1	1.6	114.29%	11.43%
	■ Customer Satisfaction - JD Power all utility average	10%	600	610	620	620	150.00%	15.00%
	■ Reliability (controllable outages - all Gas utilities)	10%	2	1	0	0	150.00%	15.00%
						<b>Total Goal % Achieved:</b>		<b>126.11%</b>

\* Where employees are covered by a collective bargaining agreement, the maximum award opportunity is 3%



**Scorecard 5K: 2011 Unified Incentive Plan**  
**Utilities Group**  
**Gas Utilities - Kansas Gas**

Measurement Level	Performance Objectives & Measures	Weight	Threshold 50%	Target 100%	Maximum 150%	Final Results	Goal % Achieved	Weighted Performance % Achieved
			Minimum Payout Performance	Targeted Payout Performance	Maximum Payout Performance			
Corporate	<b>Financial</b>							
	■ Combined EPS (90\10 weighted)	25%						
	Non Enserco (min 90%, max 115%)		\$ 1.692	\$ 1.880	\$ 2.162	\$ 1.759	67.83%	15.26%
	Enserco (min 90%, max 115%)		\$ 0.153	\$ 0.170	\$ 0.196	\$ 0.186	131.35%	3.28%
Business Unit	<b>Financial</b>							
	■ Gas Utilities Total Operating Income	25%	\$57.6MM	\$64.0MM	\$73.6MM	\$76.3MM	150.00%	37.50%
	<b>Operational &amp; Customer Service</b>							
	■ Safety - Kansas Only (Total Case Incident Rate)	20%	4.2 (6 Incidents)	3.5 (5 Incidents)	2.8 (4 Incidents)	2.1	150.00%	30.0%
	■ Safety - BHC (Total Case Incident Rate)	10%	3.9	3.6	3.1	2.1	150.00%	15.00%
	■ Customer Service Quality - JD Power all utility average	10%	610	630	650	621	77.50%	7.75%
■ Reliability: SAIDI	10%	4	2	0	0	150.00%	15.00%	
								<b>123.79%</b>

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-91**

DATE OF REQUEST: 5/28/2014  
DATE RESPONSE DUE: 6/18/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Ann Stichler  
DATE RESPONDED: 6/17/2014  
SUBJECT: AIP Awards  
REFERENCE: CURB-91

**REQUEST:**

Please identify the total amount of a) AIP awards, b) restricted stock awards, and c) performance share awards incurred by Black Hills Kansas in each of the past five years. Please include awards for both Black Hills Kansas and as well as the amounts allocated to Black Hills Kansas by any affiliate or other entity that allocates costs to Black Hills Kansas. Also, please separately identify the amount of Test Year awards that were expensed vs. capitalized by Black Hill Kansas.

RESPONSE:

Total Direct and Allocated Awards Charged to Black Hills Kansas:

		a) UIP/AIP	b) Restricted Stk	c) Performance Share	d) STIP
2009	Capitalized/Other	122,531	-	-	
	Regulated O&M	354,365	-	-	
	Total 2009	476,896	-	-	
2010	Capitalized/Other	137,319	-	2,343	12,488
	Regulated O&M	703,671	-	44,525	237,268
	Total 2010	840,990	-	46,868	249,756
2011	Capitalized/Other	259,395	1,186	2,786	15,955
	Regulated O&M	876,771	22,941	52,932	303,835
	Total 2011	1,136,166	24,127	55,718	319,790
2012	Capitalized/Other	287,740	11,493	11,227	23,501
	Regulated O&M	904,363	218,360	215,341	446,391
	Total 2012	1,192,103	229,853	226,568	469,892
2013	Capitalized/Other	241,365	11,062	15,507	18,000
	Regulated O&M	884,680	265,490	381,140	431,992
	Total 2013	1,126,045	276,552	396,647	449,992

ATTACHMENT(S):

CURB-91 Five Year Award History.xlsx

### **Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Citizens' Utility Ratepayer Board any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: June 17, 2014**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-133**

DATE OF REQUEST: 7/28/2014  
DATE RESPONSE DUE: 8/12/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Jeff Thomas/Lorna Gunderman  
DATE RESPONDED: 8/11/2014  
SUBJECT: Test Year Director Fee Expense (CURB-20)  
REFERENCE: CURB-133

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**REQUEST:**

Regarding the response to CURB-20, please explain the rationale for the 69% increase in Director's Fee expense in the Test Year.

**RESPONSE:**

The 69% increase in Director's Fee expense is due to the increase in the market value of Black Hills Corp's stock. A portion of the Directors' Fees is paid in the form of Black Hills Phantom Stock, which is marked to current fair market value. The stock price increased from \$36.34 to \$52.51 during the 2012 to 2013 time period, which is approximately a 69% increase.

**ATTACHMENT(S):**

None

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Citizens' Utility Ratepayer Board any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: August 11, 2014**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
CITIZENS' UTILITY RATEPAYER BOARD ("CURB")  
DATA REQUEST NO. CURB-160**

DATE OF REQUEST: 8/29/2014  
DATE RESPONSE DUE: 9/15/2014  
REQUESTOR: CURB  
AUDITOR:  
ANSWERED BY: Jeff Thomas  
DATE RESPONDED: 9/04/2014  
SUBJECT: Tuition Assistance - Dependents  
REFERENCE: CURB-160

**REQUEST:**

Please quantify the amount of tuition assistance included in the Company's claim in this case. Please separately identify a) the amount of tuition assistance relating to employees, b) the amount of tuition assistance relating to dependents of employees, and c) the amount of tuition assistance relating to others (if applicable).

**RESPONSE:**

Tuition assistance is only available to Regular Full-Time employees. Tuition assistance is charged to FERC account 926000 and resource 1717-BENEFITS EDUCATIONAL REIMB. The test year includes \$13,137.43 charged to resource 1717-BENEFITS EDUCATIONAL REIMB.

A review of the journal entries for the \$13,137.43 charged to resource 1717-BENEFITS EDUCATIONAL REIMB indicated that \$1,277.81 of the total amount was related to scholarships that should have been coded to FERC account 426100 and resource 2400-CHARITABLE CONTRIBUTIONS. This scholarship total if coded to FERC account 426100 would have been included the IS-9 Contributions and Dues Adjustment at 50% of the \$1,277.81. This coding error identifies a reduction of \$(638.91) to O&M

expenses. Please see the attached excel file "CURB-160 Tuition Assistance" for the calculation of the tuition assistance cost included in the application.

The breakdown of tuition assistance included in the test year is as follows:

- |               |             |
|---------------|-------------|
| a) Employees  | \$11,909.81 |
| b) Dependents | 0.00        |
| c) Other      | 0.00        |

ATTACHMENT(S):

Excel file: CURB-160 Tuition Assistance

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Citizens' Utility Ratepayer Board any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: September 4, 2014**



Year	2013
Alloc Type	
Resource	1717

**Amounts Before Allocations**

Sum of Sum Amount		Unit		
TR / Scholarship	Line Descr	80802	50503	Grand Total
TR	TuitnReim- Oth ERN	51,786.83	83,279.26	135,066.09
<b>TR Total</b>		<b>51,786.83</b>	<b>83,279.26</b>	<b>135,066.09</b>
Scholarship	BHEP SCHOLARSHIP	1,000.00		1,000.00
	BHIAG SCHOLARSHIP	1,000.00		1,000.00
	SCHOLARSHIP	2,000.00		2,000.00
	SCHOLARSHIP BHIAG	3,000.00		3,000.00
	SCHOLARSHIP BHKSG	1,000.00		1,000.00
	SCHOLARSHIP BHUHC	1,000.00		1,000.00
	SCHOLARSHIP PROG	2,000.00		2,000.00
	SCHOLARSHIP/K JOHNSON	1,000.00		1,000.00
	SCHOLARSHIP/L MEIROSE	1,000.00		1,000.00
<b>Scholarship Total</b>		<b>13,000.00</b>		<b>13,000.00</b>
<b>Grand Total</b>		<b>64,786.83</b>	<b>83,279.26</b>	<b>148,066.09</b>

Resource	1717
TR / Scholarship	(All)

**SUMMARY OF ALLOCATION OF COSTS**

Sum of Sum Amount			Alloc Type			Grand Total
Unit	Product	Account	130	625		
80802	999	926000	64,786.83	(64,786.83)		0.00
<b>80802 Total</b>			<b>64,786.83</b>	<b>(64,786.83)</b>		<b>0.00</b> A
50503	999	926000	83,279.26	14,512.25	(97,791.51)	0.00
<b>50503 Total</b>			<b>83,279.26</b>	<b>14,512.25</b>	<b>(97,791.51)</b>	<b>0.00</b> B
50504	999	926000		0.00	0.00	0.00
	103	926000		4,894.77	8,242.66	13,137.43
	340	417101		203.95	343.44	547.39
<b>50504 Total</b>				<b>5,098.72</b>	<b>8,586.10</b>	<b>13,684.82</b> C
<b>Grand Total</b>			<b>148,066.09</b>	<b>(45,175.86)</b>	<b>(89,205.41)</b>	<b>13,684.82</b>

BHSCO to BHUHC Allocation Percent	22.40%		[B/-A]
BHSCO to BHKSG Allocation Percent	7.87%		[C/-A]
BHUHC to BHKSG Allocation Percent		8.78%	[C/-B]
Prod 103 Allocation Percent			96% [D/C]

**Allocation of Type of Cost Charge to Resource 1717**

TR / Scholarship	TR
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Sum of Sum Amount				Alloc Type		BHSCO to	BHSCO & Prod	Total
Unit	Product	Account		BHUHC	Total BHUHC	BHSCO to BHUHC	BHKSG	103 Product
80802	999	926000	51,786.83				4,075.62	
50503	999	926000	83,279.26	11,600.25	94,879.51		8,330.43	
<b>Grand Total</b>			<b>135,066.09</b>				<b>12,406.05</b>	<b>96% 11,909.81</b>

TR / Scholarship	Scholarship
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Sum of Sum Amount				Alloc Type		BHSCO to	BHSCO & BHUHC to	
Unit	Product	Account		BHUHC	Total BHUHC	BHSCO to BHUHC	BHKSG	
80802	999	926000	13,000.00				1,023.10	
<b>Grand Total</b>			<b>13,000.00</b>	<b>2,912.00</b>	<b>2,912.00</b>		<b>255.67</b>	
							<b>1,278.77</b>	<b>96% 1,277.81</b> S/B Acct 426100

148,066.09	14,512.25	97,791.51	13,684.82	<b>13,187.62</b> [D]
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50 % Reduction for Scholarships (638.91)

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC**  
**d/b/a BLACK HILLS ENERGY**  
**DOCKET NO.**  
**KANSAS CORPORATION COMMISSION**  
**DATA REQUEST NO. KCC- 75**

DATE OF REQUEST: 4/29/2014  
DATE RESPONSE DUE: 4/29/2014  
REQUESTOR: Kansas Corporation Commission  
AUDITOR:  
ANSWERED BY: Jeff Thomas  
DATE RESPONDED: 4/29/2014  
SUBJECT: Golf / Sporting Event Expenses  
REFERENCE: DR – 75 (Income Statement)

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**REQUEST:**

1. Please provide a detailed listing of all golf / country club / entertainment expenses included in the test year to include amount(s), date(s), and related account(s).
2. Please provide a detailed listing of all sporting events (e.g. football, basketball, etc.) expenses included in the test year to include amount(s), date(s), and related account(s).

**RESPONSE:**

1. A review of accounts payable data identified \$1,023.50 in golf / country club expense charged to Kansas. See the attached summary for Golf and Sporting expenses.
2. A review of accounts payable data identified \$625.00 in sporting event expense e charged to Kansas. See the attached summary for Golf and Sporting expenses.

**ATTACHMENT:**

Excel File: KCC-75 Golf-Sporting

### **Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: April 29, 2014**

KCC-75	Dept	Date	Name	Line Descr	Account	Values			426100	Amount Include in Test Year
						Sum of Amount	Sum of KS %	Sum of KS AMT	Acct @ 50%	
Golf	2301	5/22/2013	IOWA WESTERN COMMUNITY COLLEGE	SCHOLARSHIP/GOLF EVENT	426100	500.00	19.30%	97.00	(48.50)	48.50
		6/6/2013	COUNTY OF SARPY SCH DIST CTY OF BELLEVUE	GOLF EVENT SPONSORSHIP	426100	380.00	19.30%	73.00	(36.50)	36.50
		7/18/2013	TENASKA MARKETING VENTURES	GOLF OUTING FEES	912000	3,340.70	19.30%	645.00		645.00
		7/31/2013	COUNCIL BLUFFS COUNTRY CLUB LLC	TOURNAMENT SPONSOR	426100	200.00	19.30%	39.00	(19.50)	19.50
	4708	7/26/2013	GREATER OMAHA CHAMBER OF COMMERCE	OMAHA CORP LEADERS GOLF INV	426100	700.00	6.87%	48.00	(24.00)	24.00
	6108	7/22/2013	MEADE COUNTRY CLUB	TOURNAMENT SPONSOR	426100	500.00	100.00%	500.00	(250.00)	250.00
<b>Golf Total</b>						<b>5,620.70</b>	<b>184.07%</b>	<b>1,402.00</b>	<b>(378.50)</b>	<b>1,023.50</b>
Sporting	2301	5/30/2013	JACKS TICKET AGENCY	GAME TICKETS	912000	3,240.00	19.30%	625.00		625.00
<b>Sporting Total</b>						<b>3,240.00</b>	<b>19.30%</b>	<b>625.00</b>	<b>0.00</b>	<b>625.00</b>
<b>Grand Total</b>						<b>8,860.70</b>	<b>203.37%</b>	<b>2,027.00</b>	<b>(378.50)</b>	<b>1,648.50</b>
The amounts charged to FERC account 426100 were reclassified to FERC account 930100 in the Dues and Contribution Adjustment										

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC**  
**d/b/a BLACK HILLS ENERGY**  
**DOCKET NO. 14-BHCG-502-RTS**  
**KANSAS CORPORATION COMMISSION**  
**DATA REQUEST NO. KCC-146**

DATE OF REQUEST: 7/10/2014  
DATE RESPONSE DUE: 7/18/2014  
REQUESTOR: Kansas Corporation Commission  
AUDITOR: Bill Baldry  
ANSWERED BY: Jeff Thomas/Josh Wosepka  
DATE RESPONDED: 7/17/2014  
SUBJECT: Pension Plan  
REFERENCE: KCC-146

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**REQUEST:**

Page 95 of Black Hills Corporation's 2013 10K states that the Company's non-contributory pension plan's benefit cost was \$15 million in 2013, and that the Company expects the plan's benefit cost to be \$8.1 million in 2014.

1. Please explain why the pension plan's benefit cost will decrease so much from 2013 to 2014.
2. Does the Company anticipate the pension plan's benefit cost will be in the \$8 million range in future years?
3. What is the expected pension benefit cost for 2014 for Black Hills/ Kansas Gas Utility Company?

**RESPONSE:**

1. Please refer to page 95 of the Black Hills Corporation's 2013 10K. As described Pension costs are based on numerous assumptions, including discount rate, rate of return on plan assets and future increases in compensation levels. A significant driver is the discount rate, which was 4.25 percent in 2013 compared to 5.00 percent for 2014.

2. Based on current assumptions, the Company anticipates pension costs to be at least \$8 million in future years. This assumption reflects the net results of minimal fluctuation in the cost of benefits earned during a year, interest cost on projected pension obligations, and net actuarial amortization and deferred costs and the actual return on pension assets during a year.
3. The pension plan's benefit costs of Black Hills/Kansas Gas Utility for 2014 is \$661,292.

**ATTACHMENT(S):**

None

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: July 17, 2014**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
KANSAS CORPORATION COMMISSION  
DATA REQUEST NO. KCC-178**

DATE OF REQUEST: 7/17/2014  
 DATE RESPONSE DUE: 7/25/2014  
 REQUESTOR: Kansas Corporation Commission  
 AUDITOR: Bill Badry  
 ANSWERED BY: Jeff Thomas  
 DATE RESPONDED: 7/24/2014  
 SUBJECT: Pension Expense  
 REFERENCE: KCC-178

**REQUEST:**

Please provide the pension expense by month for the period of January 2011 through June 2014 for Black Hills/Kansas Gas Utility Company.

**RESPONSE:** Pension expense is recorded to account 926000 and resource 1710. The monthly pension expense by month for January 2011 through June 2014 is as follows:

Unit	50504
Resource	1710
Account	926000

Sum of Sum Total Amt Period	Year			
	2011	2012	2013	2014
1	45,868.51	89,873.70	105,736.31	97,218.95
2	46,207.50	111,297.67	153,090.32	71,767.36
3	46,207.50	87,297.89	127,002.30	72,513.08
4	46,207.50	82,670.32	119,917.70	93,225.91
5	46,207.50	93,039.03	132,766.56	68,597.93
6	46,207.50	88,558.87	119,726.48	112,296.01
7	46,207.50	86,684.48	130,932.27	
8	46,207.50	93,670.58	120,440.17	
9	49,447.15	84,614.61	120,033.80	
10	46,245.54	100,865.97	138,800.97	
11	46,207.50	90,886.86	123,519.21	
12	46,207.50	117,829.40	118,384.26	
<b>Grand Total</b>	<b>557,428.70</b>	<b>1,127,289.38</b>	<b>1,510,350.35</b>	<b>515,619.24</b>

ATTACHMENT(S):

None

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: July 24, 2014**



**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
KANSAS CORPORATION COMMISSION  
DATA REQUEST NO. KCC-179**

DATE OF REQUEST: 7/17/2014  
 DATE RESPONSE DUE: 7/25/2014  
 REQUESTOR: Kansas Corporation Commission  
 AUDITOR: Bill Badry  
 ANSWERED BY: Jeff Thomas  
 DATE RESPONDED: 7/24/2014  
 SUBJECT: Post-Retirement Benefit Expense  
 REFERENCE: KCC-179

**REQUEST:**

Please provide the postretirement benefit expense by month for the period of January 2011 through June 2014 for Black Hills/Kansas Gas Utility Company.

**RESPONSE:** Postretirement benefit expense is recorded to account 926000 and resource 1719. The monthly postretirement benefit expense by month for January 2011 through June 2014 is as follows:

Unit	50504
Resource	1719
Account	926000

Sum of Sum Total Amt		Year			
Period		2011	2012	2013	2014
	1	19,489.72	26,068.73	20,892.82	20,328.80
	2	19,632.32	27,369.12	24,174.24	21,659.74
	3	19,801.70	26,601.86	31,130.60	28,524.37
	4	19,688.78	25,758.59	24,070.47	20,977.92
	5	19,688.78	28,001.25	24,161.97	20,399.69
	6	19,688.78	26,690.73	24,084.37	20,328.80
	7	19,688.78	25,733.46	24,092.03	
	8	19,688.78	28,774.55	24,080.39	
	9	19,688.78	25,702.22	24,120.52	
	10	19,688.78	25,739.57	24,102.44	
	11	28,098.84	26,397.92	24,149.88	
	12	19,688.78	36,071.68	24,090.19	
<b>Grand Total</b>		<b>244,532.82</b>	<b>328,909.68</b>	<b>293,149.92</b>	<b>132,219.32</b>

ATTACHMENT(S):

None

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: July 24, 2014**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
KANSAS CORPORATION COMMISSION  
DATA REQUEST NO. KCC-190**

DATE OF REQUEST: 7/18/2014  
DATE RESPONSE DUE: 7/28/2014  
REQUESTOR: Kansas Corporation Commission  
AUDITOR: Chad Unrein  
ANSWERED BY: Jeff Thomas  
DATE RESPONDED: 7/27/2014  
SUBJECT: Follow-Up to CURB DR 43  
REFERENCE: KCC-190

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**REQUEST:**

Per response to CURB DR 43 - Meals Expense, please provide a categorical breakdown of non-payroll based meals into meals provided for a business related function or meals related to non-business activities. The expense breakout should include meals related to lobbying activities and meals provided to spouses or other individuals who served a non-business related purpose.

**RESPONSE:**

The Company's accounting system does not provide the level of detail requested.

**ATTACHMENT(S):**

None

### **Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: July 27, 2014**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
KANSAS CORPORATION COMMISSION  
DATA REQUEST NO. KCC-205**

DATE OF REQUEST: 7/28/2014  
DATE RESPONSE DUE: 8/06/2014  
REQUESTOR: Kansas Corporation Commission  
AUDITOR: Tim Rehagen  
ANSWERED BY: Becky Tangeman  
DATE RESPONDED: 8/11/2014  
SUBJECT: Plant  
REFERENCE: KCC-205

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**REQUEST:**

Per the workpapers in adjustment IS-16 (In response to Staff Data Request No. 1), please provide the following:

- A complete updated version of the Depreciation Adjustment tab that includes the plant balances as of June 30, 2014. Please include fully accrued plant and retirements of fully accrued plant as separate line items just as they were presented in the spreadsheet tab.
- An explanation as to why there are no fully accrued plant subtractions or fully accrued plant retirements from any of the transmission or distribution plant accounts.

**RESPONSE:**

Please see the attached file entitled "KCC-205 Updated IS-16 June 2014.xls" for the updated annualized depreciation expense adjustment.

There are no fully accrued plant subtractions or fully accrued plant retirements for transmission or distributions plant accounts because general plant accounts are the only ones that would be eligible for the vintage year accounting method used in the KS depreciation study. The fully accrued amounts in the study and in the annualized depreciation adjustment are the balances that are equal to or older than the average

service life years in those plant accounts and will be retired once the depreciation study is approved.

Attached is a pdf file of the FERC definition of vintage year accounting.

ATTACHMENT(S):

KCC-205 Updated IS-16 June 2014.xls

KCC-205 FERC Vintage Year Acctg.pdf

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: August 11, 2014**

BH Kansas Gas Utility Co LLC  
 KCC-205 UPDATED IS-16  
 Annualized Depreciation Adjustment with New Depr Rates  
 State of KS, BHUH and BHSC  
 As of June 30, 2014

FERC ACCT	Plant Acct & Description	End of Period Jun-14	New Depr Rate	Annualized Depreciation	12 Mos. Ending June 30, 2014 Depr Expense	Depreciation Adjustment
<b>INTANGIBLE PLANT</b>						
301	230100 - Intang-Organization	186,931.82				
301 Total		186,931.82	amort	5,631	5,631	-
302	230200 - Intang-Franchs & Consent	74,989.75				
	230201 - F&C - Franchise	0.00				
302 Total		74,989.75	amort	1,065	1,065	-
303	230300 - Intang-Misc Intang	1,039,860.39				
	230301 - IntangMisc - Easements	1,730,332.20				
	230302 - IntangMisc - Trademarks	181,000.00				
	230303 - IntangMisc - WorkForce	0.00				
	230370 - Intang-Misc Intang-Farm Ta	295,645.70				
303 Total		3,246,838.29	amort	106,666	106,666	-
<b>Total Intangible Plant</b>		<b>3,508,759.86</b>		<b>113,362</b>	<b>113,362</b>	<b>-</b>
<b>PRODUCTION PLANT</b>						
325	232504 - Gas Prod/Gath-LdRt/ROW ND	0.00				
	232505 - Gas Prod/Gath-Ld Rt/ROW-Dp	0.00				
325 Total		0.00				
327	232700 - Gas Gath-Cmprs Sta-Str&Imp	0.00				
327 Total		0.00				
328	232800 - Gas Gath-Mea & Reg Sta Str	0.00				
328 Total		0.00				
329	232900 - Gas Prod/Gath-Oth Structrs	0.00				
329 Total		0.00				
332	233201 - Gas Prod/Gath-Field Lines	0.00				
332 Total		0.00				
333	233301 - Gas Gath-Flld Compr Sta Eqp	0.00				
333 Total		0.00				
334	233401 - Gas Gath-Flld Mea/Reg Sta	0.00				
334 Total		0.00				
336	233601 - Gas Gath-Purification Eqp	18,718.78	3.33%	623	537	86
336 Total		18,718.78				
337	233700 - Gas Prod/Gath-Oth Equip	0.00				
337 Total		0.00				
<b>Total Production Plant</b>		<b>18,718.78</b>		<b>623</b>	<b>537</b>	<b>86</b>
<b>TRANSMISSION PLANT</b>						
365	236501 - Gas Trans-Land	10,130.51	nondepr			
	236502 - Gas Trans-Ld Rt/ROW-NonD	576,486.57	nondepr			
	236571 - Gas Trans-Land-Farm Tap	643.94	nondepr			
	236572 - Gas Trans-Ld Rt-NonD-Farm	2,100.26	nondepr			
365 Total		589,361.28	nondepr			
366	236601 - Gas Trans-Struct & Improve	111,517.87	1.95%	2,175		
	236671 - Gas Trans-Struct & Improve	8,600.16	2.15%	185		
366 Total		120,118.03		2,360	1,620	740
367	236701 - Gas Trans - Iron Mains	328,464.43	1.58%	5,190		
	236702 - Gas Trans - PE Mains	880,394.62	1.71%	15,055		
	236703 - Gas Trans - Steel Mains	28,435,174.03	1.21%	344,066		
	236704 - Gas Trans - PVC Mains	528.91	1.71%	9		
	236705 - Gas Trans - Plastic Mains	0.00				
	236706 - Gas Trans - Other Mains	(83.14)	1.20%	(1)	Anadarko acq-used ave %	
	236707 - Gas Trans - Oth Equip	(1,355.55)	1.21%	(16)		
	236772 - Gas Trans - PE Mains-Farm	907.78	1.71%	16		
	236773 - Gas Trans - Steel Mains-Fa	1,833,364.60	0.81%	14,850		
367 Total		31,477,395.68		379,169	477,187	(98,018)
368	236804 - Gas Trans-Compresr Sta-Eqp	21,483.71	5.31%	1,141	408	733
368 Total		21,483.71				
369	236903 - Gas Tran-Mea & Reg Sta Eqp	3,563,755.22	3.02%	107,625		
	236973 - Gas Tran-Mea & Reg Sta Eqp	51,304.00	2.99%	1,534		
369 Total		3,615,059.22		109,159	53,970	55,189
371	237101 - Gas Trans-Oth Equipment	108,344.42	7.44%	8,061	2,524	5,537
371 Total		108,344.42				

BH Kansas Gas Utility Co LLC  
 KCC-205 UPDATED IS-16  
 Annualized Depreciation Adjustment with New Depr Rates  
 State of KS, BHUH and BHSC  
 As of June 30, 2014

FERC ACCT	Plant Acct & Description	End of Period Jun-14	New Depr Rate	Annualized Depreciation	12 Mos. Ending June 30, 2014 Depr Expense	Depreciation Adjustment
	<b>Total Transmission Plant</b>	<b>35,931,762.34</b>		<b>499,890</b>	<b>535,709</b>	<b>(35,819)</b>
<b>DISTRIBUTION PLANT</b>						
	374 237401 - Gas Dist-Land	230,634.62	nondepr			
	237402 - Gas Dist-Ld Rt/ROW-NonDep	154,533.96	nondepr			
<b>374 Total</b>		<b>385,168.58</b>				
	375 237501 - Gas Dist-Struct & Improve	329,915.61	6.62%	21,840	570	21,270
	237503 - Gas Dist-Str & Improve-TBS	0.00				
<b>375 Total</b>		<b>329,915.61</b>				
	376 237601 - Gas Dist - Iron Mains	0.00				
	237602 - Gas Dist - PE Mains	37,913,724.77	2.07%	784,814		
	237603 - Gas Dist - Steel Mains	24,966,769.88	1.07%	267,144		
	237604 - Gas Dist - PVC Mains	500,825.50	1.61%	8,063		
	237605 - Gas Dist - Plastic Mains	11,849,617.07	2.07%	245,287		
	237606 - Gas Dist - Mains - Other M	6,713.59	1.20%	81		
	237607 - Gas Dist - Mains - Oth Equ	649,162.01	3.76%	24,408		
	237655 - Gas Dist-Mains-Lease Imprv	0.00				
<b>376 Total</b>		<b>75,886,812.82</b>		<b>1,329,797</b>	<b>1,273,492</b>	<b>56,305</b>
	377 237700 - Gas Dist-Compress Sta Eqp	176,363.03	3.56%	6,279	5,644	635
<b>377 Total</b>		<b>176,363.03</b>				
	378 237800 - Gas Dist-Gen Mea/Reg Sta	3,379,028.14	2.53%	85,489	68,732	16,757
	237850 - Gas Dist-Gen Mea/Reg-Lease	0.00				
<b>378 Total</b>		<b>3,379,028.14</b>				
	379 237900 - Gas Dist-City Gate Mea/Reg	72,795.83	3.51%	2,555	1,652	903
<b>379 Total</b>		<b>72,795.83</b>				
	380 238001 - Gas Dist-Services - Iron	0.00				
	238002 - Gas Dist-Services - PE	33,818,784.78	2.18%	737,250		
	238003 - Gas Dist-Services - Steel	4,457,179.71	3.87%	172,493		
	238004 - Gas Dist-Services - PVC	75,059.57	4.66%	3,498		
	238005 - Gas Dist-Services - Plasti	10,009,738.78	2.18%	218,212		
	238006 - Gas Dist-Services - Copper	0.00				
	238051 - Gas Dist-Services-Leasehld	0.00				
<b>380 Total</b>		<b>48,360,762.84</b>		<b>1,131,453</b>	<b>1,113,757</b>	<b>17,696</b>
	381 238100 - Gas Dist-Meters-Small Vol	9,296,353.45	3.42%	317,935		
	238101 - Gas Dist-Meters-ERT	8,010,211.12	6.93%	555,108		
	238102 - Gas Dist-Meters-AMR	0.00	6.10%			
	238103 - Gas AMI - Infrastructure	906,052.59	6.10%	55,269		
<b>381 Total</b>		<b>18,212,617.16</b>		<b>928,312</b>	<b>744,390</b>	<b>183,922</b>
	382 238201 - Gas Dist-Meter Installtn	1,965,363.71	0.72%	14,151	40,900	(26,749)
<b>382 Total</b>		<b>1,965,363.71</b>				
	383 238301 - Gas Dist-House Regulator	14,168,613.60	2.69%	381,136	299,968	81,168
<b>383 Total</b>		<b>14,168,613.60</b>				
	384 238401 - Gas Dist-House Reg Install	0.00				
<b>384 Total</b>		<b>0.00</b>				
	385 238501 - Gas Dist-Industrial Mea/Reg	5,475,857.57	1.35%	73,924		
	238502 - Gas Dist-Indust Meters-Lrg	0.00	3.25%			
<b>385 Total</b>		<b>5,475,857.57</b>		<b>73,924</b>	<b>98,777</b>	<b>(24,853)</b>
	387 238700 - Gas Dist-Other Equipment	356,250.05	1.70%	6,056	11,837	(5,781)
<b>387 Total</b>		<b>356,250.05</b>				
	<b>Total Distribution Plant</b>	<b>168,769,548.94</b>		<b>3,980,992</b>	<b>3,659,719</b>	<b>321,273</b>
<b>GENERAL PLANT</b>						
	389 238901 - Gen Plant-Land	567,951.74	nondepr			
<b>389 Total</b>		<b>567,951.74</b>				
	390 239001 - Gen Plt-Str & Improve-Own	6,723,471.27	2.66%	178,844	41,107	
	239051 - Gen Plt-Str & Imprve-Lease	56,360.76	3.41%	1,922		
<b>390 Total</b>		<b>6,779,832.03</b>		<b>180,766</b>	<b>41,107</b>	<b>139,659</b>
	391 239101 - Gen Plt-Office Furn & Eqp	311,755.18				
	239101 - Gen Plt Office Furn	(152,556.37)	0.00% <sup>(see depr study)</sup>			
	less retirements Oct - Dec of list above	28,590.00				
	239101 Gen Plt Offc Furn & Eq amortized	187,788.81	11.07%	20,788		
	239102 - Gen Plt-Computer-PURPA	0.00				



BH Kansas Gas Utility Co LLC  
 KCC-205 UPDATED IS-16  
 Annualized Depreciation Adjustment with New Depr Rates  
 State of KS, BHUH and BHSC  
 As of June 30, 2014

FERC ACCT	Plant Acct & Description	End of Period Jun-14	New Depr Rate	Annualized Depreciation	12 Mos. Ending June 30, 2014 Depr Expense	Depreciation Adjustment
	239103 - Gen Plt-Computer Hardware	1,191,776.19				
	239103 - Gen Plt-Computer Hardware	(513,276.03)	0.00% :see depr study			
	239103 - Amount Amortized	678,500.16	47.19%	320,184		
	239104 - Gen Plt-Software	7,150.62	24.42%	1,746		
391 Total		873,439.59		321,930	142,738	179,192
392	239201 - Gen Plt-Trans Eq-Subunit	27,324.44	11.52%	3,148		O&M
	239202 - Gen Plt-Trans Eq-Cars	140,625.55	29.61%	41,639		O&M
	239203 - Gen Plt-Trans Eq-Lght Trk	1,785,432.26	13.23%	236,213		O&M
	239204 - Gen Plt-Trans Eq-Med Trck	1,511,469.98	12.40%	187,422		O&M
	239205 - Gen Plt-Trans Eq-Hvy Trck	224,702.29	8.63%	19,392		O&M
	239206 - Gen Plt-Trans Eq-Trailers	150,959.25	5.81%	8,771		O&M
392 Total		3,840,513.77				
393	239300 - Gen Plt-Stores Equipment	22,264.78	2.65%	590	1,119	
393 Total		22,264.78		590	1,119	(529)
394	239400 - Gen Plt-Tool/Shop/Garage	1,859,591.58				
	239400 - Gen Plt-Tool/Shop/Garage	(246,816.45)	0.00% :see depr study			
	less retirements Oct - Dec of list above	47,334.54				
394 Total		1,660,109.67	2.58%	42,831	36,628	6,203
395	239500 - Gen Plt-Lab Equipment	69,794.70				
	239500 - Gen Plt-Lab Equipment	(16,984.67)	0.00%			
395 Total		52,810.03	1.55%	819	2,167	(1,348)
396	239601 - Gen Plt-Shrt Life Powr Eq	206,144.25	2.35%	4,844		O&M
	239602 - Gen Plt-Long Life Powr Eq	376,530.01	2.83%	10,656		O&M
396 Total		582,674.26				
397	239700 - Gen Plt-Communication Eq	1,136,120.87				
	239700 - Gen Plt-Communication Eq	(165,314.52)	0.00% :see depr study			
397 Total		970,806.35	14.97%	145,330	45,601	99,729
398	239800 - Gen Plt-Miscellaneous Eq	12,867.76				
	239800 - Gen Plt-Miscellaneous Eq	(12,550.55)	0.00% :see depr study			
398 Total		317.21	27.35%	87	796	(709)
399	239902 - Gen Plt-Compressed Gas	0.00				
399 Total		0.00				
399.1	Asset Retirement Obligation(not on PP)	4,062.00	N/A			
	<b>Total General Plant (includes all plant)</b>	<b>16,386,355.48</b>		<b>692,353</b>	<b>270,156</b>	<b>422,197</b>
<b>Grand Total</b>	<b>Direct KS Plant @ June 30, 2014</b>	<b>224,615,145.40</b>		<b>5,287,220</b>	<b>4,579,483</b>	<b>707,737</b>
	Transportation Expense (informational only-not included in total)			512,085	378,839	133,246
<b>Allocations From BHUH</b>						
<b>ELECTRIC PLANT</b>						
39101	139101 - Gen Plt-Office Furn & Eq	-	0.00%	-		
39103	139103 - Gen Plt-Computer Hardware	-	0.00%	-		
39700	139700 - Gen Plt-Communication Eq	164,754	4.94%	8,139		
39203	139203 - Gen Plt-Trans Eq-Lght Trk	9,093	8.14%	740		
	<b>Total Electric Plant</b>	<b>173,847</b>		<b>8,879</b>		
<b>GAS PLANT</b>						
37400	237401 - Gas Dist-Land	14,849	n/a	-		
37800	237800 - Gas Dist-Gen Mea/Reg Sta	6,023	3.05%	184		
38100	238100 - Gas Dist-Meters-Small Vol	1,199,630	3.91%	46,905		
38101	238101 - Gas Dist-Meters-ERT	590,726	6.67%	39,401		
38501	238501 - Gas Dist-Industrial Mea/Reg	465,744	4.60%	21,424		
38502	238502 - Gas Dst-Indust Meters-Lrg	9,309	11.49%	1,070		
38700	238700 - Gas Dist-Other Equipment	1,400	11.17%	156		
38900	238900 - Gen Plt-Land	55,189	0.00%	-		
39001	239001 - Gen Plt-Str & Improve-Own	804,488	1.66%	13,355		
39101	239101 - Gen Plt-Office Furn & Eq	32,454	5.69%	1,847		
39102	239102 - Gen Plt- Computers (PURPA)	-	22.22%	-		
39103	239103 - Gen Plt-Computer Hardware	8,608	21.55%	1,855		
39201	239201 - Gen Plt-Trans Eq-Subunit	-	0.00%	-		

BH Kansas Gas Utility Co LLC  
KCC-205 UPDATED IS-16  
Annualized Depreciation Adjustment with New Depr Rates  
State of KS, BHUH and BHSC  
As of June 30, 2014

FERC ACCT	Plant Acct & Description	End of Period Jun-14	New Depr Rate	Annualized Depreciation	12 Mos. Ending June 30, 2014 Depr Expense	Depreciation Adjustment
39202	239202 - Gen Plt-Trans Eqp-Cars	5,505	13.60%	749		
39204	239204 - Gen Plt-Trans Eqp-Med Trck	2,561	13.60%	348		
39206	239206 - Gen Plt-Trans Eqp-Trailers	9,262	5.94%	550		
39400	239400 - Gen Plt-Tool/Shop/Garage	311,050	7.83%	24,355		
39500	239500 - Gen Plt-Lab Equipment	11,266	6.41%	722		
39700	239700 - Gen Plt-Communication Eqp	3,514	4.94%	174		
	<b>Total Gas Plant</b>	<b>3,531,578</b>		<b>153,095</b>		
<b>COMMON PLANT</b>						
38901	338901 - Gen Plt-Land	-	0.00%	-		
39001	339001 - Gen Plt-Str & improve-Own	26,046	1.77%	461		
39051	339051 - Gen Plt-Str & Imprve-Lease	55,163	3.25%	1,793		
39101	339101 - Gen Plt-Office Furn & eqp	191,089	4.64%	8,866		
39103	339103 - Gen Plt-Computer Hardware	447,112	14.58%	65,189		
39104	339104 - Gen Plt-Software	9,200,944	1.66%	152,736		
39105	339105 - Gen plt-Sys Dev	8,984	13.13%	1,180		
39201	339201 - Gen Plt-Trans Eqp-Subunit	7,981	20.63%	1,646		
39202	339202 - Gen Plt-Trans Eqp-Cars	12,732	14.75%	1,878		
39203	339203 - Gen Plt-Trans Eqp-Lght Trck	41,328	9.63%	3,980		
39204	339204 - Gen Plt-Trans Eqp-Med Trck	10,703	9.63%	1,031		
39400	339400 - Gen Plt-Tool/Shop/Garage	14,567	3.60%	524		
39700	339700 - Gen Plt-Communication Eqp	975	5.52%	54		
39800	339800 - Gen Plt-Miscellaneous Eqp	228	3.36%	7		
	<b>Total Common BHUH</b>	<b>10,017,852</b>		<b>239,345</b>		
<b>COMMON PLANT BHSC ALLOC TO BHUH</b>						
938900	938900 - Gen Plant-land	1,876	0.00%	-		
939000	939000 - STRUCT AND IMPROVE	20,961	1.93%	405		
939100	939100 - SOFTWARE	220,906	8.89%	19,639		
939100	939100 - HARDWARE	39,059	7.45%	2,910		
939100	939100 - OFFICE EQUIP	16,525	9.03%	1,492		
939100	939100 - OFFICE FURNITURE	9,466	9.03%	855		
939202	939202 - TRANSPORT CARS	515	4.17%	21		
939203	939203 - TRANSPORT - LT TRUCKS	2	1.98%	-		
939204	939204 - TRANSPORT - MED TRUCKS	10,589	2.73%	289		
	<b>Total Alloc from BHSC to BHUH to KSGas</b>	<b>319,899</b>		<b>25,611</b>		
<b>Electric plant alloc to KS not included in adjt</b>						
	<b>TOTAL BHUH ALLOCATED TO KS</b>	<b>14,043,176</b>		<b>426,930</b>	<b>537,359</b>	<b>(110,429)</b>
The BHUH actual depr exp includes the portion from BHSC for comparison purposes				**includes the BHSC amt alloc to BHUH for KS		
<b>BHSC ALLOCATED TO KANSAS</b>						
938900	938900 - Gen Plant-land	17,022	0.00%	-		
939000	939000 - STRUCT AND IMPROVE	190,194	1.93%	3,671		
939100	939100 - SOFTWARE	2,004,421	8.89%	178,193		
939100	939100 - HARDWARE	354,405	7.45%	26,403		
939100	939100 - OFFICE EQUIP	149,942	9.03%	13,540		
939100	939100 - OFFICE FURNITURE	85,889	9.03%	7,756		
939202	939202 - TRANSPORT CARS	4,669	4.17%	195		
939203	939203 - TRANSPORT - LT TRUCKS	16	1.98%	-		
939204	939204 - TRANSPORT - MED TRUCKS	96,086	2.73%	2,623		
	<b>Total Alloc from BHSC to KSGAS</b>	<b>2,902,644</b>		<b>232,381</b>	<b>331,218</b>	<b>(98,837)</b>
	<b>Total Allocated Plant</b>	<b>16,945,820</b>		<b>659,311</b>	<b>868,577</b>	<b>(209,266)</b>
	<b>Total All Plant</b>	<b>241,560,965.40</b>		<b>5,946,531</b>	<b>5,448,060</b>	<b>498,471</b>

BH Kansas Gas Utility Co LLC  
 KCC-205 UPDATED IS-16  
 Annualized Depreciation Adjustment with New Depr Rates  
 State of KS, BHUH and BHSC  
 As of June 30, 2014

FERC ACCT	Plant Acct & Description	End of Period Jun-14	New Depr Rate	Annualized Depreciation	12 Mos. Ending June 30, 2014 Depr Expense	Depreciation Adjustment
		Actuals 12 Mos. Ending June 30, 2014	Adjustment	Total Annualized		
<u>GL Accts</u>						
404300	Amortization Expense-Direct	-	-	-	-	-
405000	Amortization Expense-Direct	113,360.92	-	113,360.92	-	-
405000	Amortization Expense-Allocated	-	-	-	-	-
	Total Amortization Expense	113,360.92	-	113,360.92	-	-
403000	Depreciation Expense-Direct	4,466,121.90	707,737.00	5,173,858.90	-	-
403000	Depreciation Expense-Allocated	868,577.72	(209,266.00)	659,311.72	-	-
	Total Depreciation Expense	5,334,699.62	498,471.00	5,833,170.62	-	-
	Total Both Amort & Depr	5,448,060.54	498,471.00	5,946,531.54	-	-
	Per Book Total all plant June 2014	\$ 241,560,966				
		\$ -				
	Per Book Total Adjusted - June 2014	\$ 241,560,966.00				
	Annualized Depr Adjmt Plant Bal	\$ 241,560,965.40				
	Difference		(0.60) rounding			

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
KANSAS CORPORATION COMMISSION  
DATA REQUEST NO. KCC-206**

DATE OF REQUEST: 7/28/2014  
DATE RESPONSE DUE: 8/06/2014  
REQUESTOR: Kansas Corporation Commission  
AUDITOR: Tim Rehagen  
ANSWERED BY: Becky Tangeman  
DATE RESPONDED: 8/11/2014  
SUBJECT: Plant  
REFERENCE: KCC-206

**REQUEST:**

Per Section 4 of the Application, please provide the following:

- An updated version of Section 4, Schedule 2 that includes the plant balances as of June 30, 2014.
- A detailed spreadsheet showing accumulated depreciation, as of June 30, 2014, for each individual plant account listed in Section 4, Schedule 2.

**RESPONSE:**

Please see attached plant file and the accumulated depreciation file for updated balances as of June 30, 2014.

**ATTACHMENT(S):**

KCC-206 RB- Plant Updated thru June 2014.xls

KCC-206 RB – Accum Depr Updated June 1014.xls

### **Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: August 11, 2014**

BLACK HILLS ENERGY  
 KANSAS GAS UTILITY COMPANY, LLC  
 FULLY ALLOCATED PLANT  
 AS OF JUNE 2014  
 KCC-206

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FERC NO.	DESCRIPTION	DIRECT PLANT JUNE 2014	KS PLANT NOT ON POWERPLANT	TOTAL ALL ALLOCATED PLANT JUNE 2014	Per Book TOTAL PLANT JUNE 2014
<b>INTANGIBLE PLANT</b>					
301	Organization	186,932	0	0	186,932
302	Franchise & Consents	74,990	0	0	74,990
303	Misc. Intangible	3,246,838	0	0	3,246,838
Total Intangible Plant		3,508,760	0	0	3,508,760
<b>PRODUCTION &amp; GATHERING PLANT</b>					
325.4	Rights-of-Way	0	0	0	0
325.5	Other Land and Land Rights	0	0	0	0
327	Field Comp. Sta. Structures	0	0	0	0
328	Field Meas. & Reg. Sta. Structures	0	0	0	0
329	Other Structures	0	0	0	0
332	Field Lines	0	0	0	0
333	Field Comp. Stat. Equipment	0	0	0	0
334	Field Meas. & Reg. Sta. Equipment	0	0	0	0
336	Purification Equipment	18,719	0	0	18,719
Total Prod. & Gath. Plant		18,719	0	0	18,719
<b>TRANSMISSION</b>					
365.1	Land and Land Rights	10,775	0	0	10,775
365.2	Rights of Way	578,587	0	0	578,587
366	Structures & improvements	120,118	0	0	120,118
367	Mains	31,477,395	0	0	31,477,395
368	Compressor Station Equipment	21,484	0	0	21,484
369	Measuring & Reg. Sta. Equip.	3,615,059	0	0	3,615,059
371	Other Equipment	108,344	0	0	108,344
Total Transmission		35,931,762	0	0	35,931,762
<b>DISTRIBUTION</b>					
374	Land and Land Rights	385,168	14,849	0	400,017
375	Structures & Improvements	329,916	0	0	329,916
376	Mains	75,886,813	0	0	75,886,813
377	Compressor Station Equipment	176,363	0	0	176,363
378	Meas. & Reg. Sta. Equip.	3,379,028	6,023	0	3,385,051
379	Meas. and reg sta. equip. - City gate	72,796	0	0	72,796
380	Services	48,360,763	0	0	48,360,763
381	Meters	18,212,617	1,790,356	0	20,002,973
382	Meter Installations	1,965,364	0	0	1,965,364
383	House Regulators	14,168,614	0	0	14,168,614
384	House Reg. Installations	0	0	0	0
385	Ind. Meas. & Reg. Sta. Equip.	5,475,857	475,052	0	5,950,909
387	Other	356,250	1,400	0	357,650
Total Distribution		168,769,549	0	2,287,580	171,057,229
<b>GENERAL</b>					
389	Land and land rights	587,952	0	74,087	642,039
390	Structures and improvements	6,779,832	0	1,098,852	7,878,684
391	Office Furniture & Equip.	1,510,682	0	12,768,804	14,280,486
392	Transportation Equip.	3,840,513	0	211,042	4,051,555
393	Stores Equipment	22,265	0	0	22,265
394	Tools & Work Equipment	1,859,582	0	325,618	2,185,200
395	Laboratory Equipment	69,795	0	11,266	81,061
396	Power Operated Equipment	582,674	0	0	582,674
397	Communication equipment	1,136,121	0	169,243	1,305,364
398	Miscellaneous equipment	12,858	0	228	13,086
399	Other Tangible Property	0	0	0	0
399.1	Asset Retirement Obligation for Gen Plnt	0	4,062	0	4,062
Total General Plant		16,382,294	4,062	14,658,140	31,044,496
Total Gas Plant in Service		224,611,084	4,062	16,945,820	241,560,966

BLACK HILLS ENERGY  
 KANSAS GAS UTILITY COMPANY, LLC  
 ACCUMULATED DEPRECIATION/AMORTIZATION  
 END OF PERIOD JUNE 30, 2014

9/9/14 12:50 PM

FERC NO.	DESCRIPTION	Direct	KS	KS	KS
		RESERVES	RESERVES	RESERVES	RESERVES
		JUNE 2014	Not on PowerPlant	Allocated to KS	As of JUNE 2014
<b>INTANGIBLE PLANT</b>					
301	Organization	134,379			134,379
302	Franchise & Consents	66,455			66,455
303	Misc. Intangible	1,505,608			1,505,608
	<b>Total Intangible Plant</b>	<b>1,706,442</b>			<b>1,706,442</b>
<b>PRODUCTION &amp; GATHERING PLANT</b>					
325.4	Rights-of-Way				
325.5	Other Land and Land Rights				
327	Field Comp. Sta. Structures				
328	Field Meas. & Reg. Sta. Structures				
329	Other Structures				
332	Field Lines				
333	Field Comp. Stat. Equipment				
334	Field Meas. & Reg. Sta. Equipment				
336	Purification eqpt.	8,762			8,762
337	Other Eqpt.				
	<b>Total Prod. &amp; Gath. Plant</b>	<b>8,762</b>			<b>8,762</b>
<b>TRANSMISSION</b>					
365.1	Land and Land Rights				
365.2	Rights of Way				
366	Structures & Improvements	163,207			163,207
367	Mains	11,106,577			11,106,577
368	Compressor Station Equipment	(81,361)			(81,361)
369	Measuring & Reg. Sta. Equip.	1,149,458			1,149,458
371	Other Equipment	(9,258)			(9,258)
	<b>Total Transmission</b>	<b>12,328,623</b>			<b>12,328,623</b>
<b>DISTRIBUTION</b>					
374	Land and Land Rights	(6,628)			(6,628)
375	Structures & Improvements	(29,032)			(29,032)
376	Mains	33,862,864	(24,219)		33,838,645
377	Compressor Station Equipment	21,083			21,083
378	Meas. and reg sta. Equipment	1,246,281		(18,659)	1,227,322
379	Meas. & Reg. Sta. Equip. - City Gate	29,172			29,172
380	Services	21,384,861			21,384,861
381	Meters	3,223,882			3,223,882
381.1	PND Meters			356,879	356,879
382	Meter Installations	1,496,990			1,496,990
383	House Regulators	2,606,442			2,606,442
384	House Reg. Installations				
385	Ind. Meas. & Reg. Sta. Equip.	2,144,436		39,525	2,183,961
385.1	PND Meters-Lrg volume				
387	Other	226,189		(7,685)	218,304
	<b>Total Distribution</b>	<b>66,204,540</b>	<b>(24,219)</b>	<b>369,560</b>	<b>66,549,881</b>
<b>GENERAL</b>					
389	Land and land rights				
390	Structures and improvements-own & lease	417,202		381,561	798,763
391	Office Furniture & Equip.	663,842		10,490,860	11,154,702
392	Transportation Equip.	894,120		83,199	977,319
393	Stores Equipment	15,834			15,834
394	Tools & Work Equipment	1,012,578		42,592	1,055,170
395	Laboratory Equipment	54,630		(6,952)	47,678
396	Power Operated Equipment	239,666			239,666
397	Communication equipment	191,549		5,054	196,603
398	Miscellaneous equipment	4,248		938	5,186
399	Other Tangible Property				
399.1	Asset Retirement Costs for Gen Plant		2,377		2,377
	<b>Total General Plant</b>	<b>3,493,669</b>	<b>2,377</b>	<b>10,997,252</b>	<b>14,493,298</b>
	<b>Total Accumulated Depr/Amort for Kansas</b>	<b>83,742,036</b>	<b>(21,842)</b>	<b>11,366,812</b>	<b>95,087,006</b>

There were entries made to PeopleSoft general ledger that were not reflected in PowerPlant. These include Anadarko reserves of \$729,361; a correction that needs to be made for \$(265,586) and also for \$1,968.

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC**  
**d/b/a BLACK HILLS ENERGY**  
**DOCKET NO. 14-BHCG-502-RTS**  
**KANSAS CORPORATION COMMISSION**  
**DATA REQUEST NO. KCC-255**

DATE OF REQUEST: 8/20/2014  
DATE RESPONSE DUE: 8/28/2014  
REQUESTOR: Kansas Corporation Commission  
AUDITOR: Andria Finger  
ANSWERED BY: Ann Stichler  
DATE RESPONDED: 8/27/2014  
SUBJECT: Future Track  
REFERENCE: KCC-255

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**REQUEST:**

In regards to the SWP Programs Costs tab included in the "IS-15 FutureTrack Adjustment" workpaper provided in response to Staff Data Request No. 1.

- a. Have any employees been hired in 2014?
- b. If the answer to part (a) is yes, are the positions included in the June 30, 2014 updated payroll numbers included in response to Staff Data Request Nos. 198 and 251? If yes, please state the job function title and the related salary and benefits of the new hires included in the Company's Kansas operations payroll adjustment updated through June 30, 2014.
- c. Have any of the six employees included in response to Staff Data Request No. 203 retired to date? If yes, please specify which employees have retired, the date of their retirement, and their related salary and benefits included in the Company's Kansas operations payroll adjustment.

**RESPONSE:**

- a. No employees have been hired in 2014 to date under the FutureTrack program.
- b. Not applicable.
- c. None of the six employees listed in KCC-203 have retired to date.



ATTACHMENT(S):

None

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: August 27, 2014**

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
KANSAS CORPORATION COMMISSION  
DATA REQUEST NO. KCC-264**

DATE OF REQUEST: 8/22/2014  
DATE RESPONSE DUE: 9/03/2014  
REQUESTOR: Kansas Corporation Commission  
AUDITOR: Tim Rehagen  
ANSWERED BY: Pam Ferguson  
DATE RESPONDED: 8/27/2014  
SUBJECT: Accumulated Deferred Income Taxes  
REFERENCE: KCC-264

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**REQUEST:**

Please provide the balance of accumulated deferred income taxes as of June 30, 2014 for Black Hills Kansas Gas Utility Company.

**RESPONSE:**

Please see attached.

**ATTACHMENT(S):**

KCC-264 Updated Accum Def Inc Taxes

**Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: August 27, 2014**

**Black Hills/Kansas Gas Utility Company, LLC**  
**Rate Cast Test Year ended 12/31/2013**  
**Accumulated Deferred Income Taxes at 06/30/2014**  
**KCC-264 Updated Accum Def Inc Taxes**

Description	FERC Acct	06/30/2014
<b>Accumulated Current Deferred Income Tax Liabilities (Assets)</b>		
Prepaid Expenses	283005	(11,316)
Workers Comp	283005	17,258
Bad Debt Reserve	190175	12,341
Employee Group Insurance	190175	(5,378)
State Tax Deduction	190175	-
Vacation Pay	190175	119,275
Results Comp Plan	190175	122,174
Subtotal		254,354
<b>Accumulated Noncurrent Deferred Income Tax Liabilities (Assets)</b>		
Accelerated Depreciation	282000	(19,701,115)
Pension FAS 87	190520	247,239
Line Extensions	190520	258,457
Insurance Reserve	190520	70,748
Regulatory Pension	190520	1,948,967
Retiree Healthcare Regulatory	190520	335,333
ARO FAS 143 Asset	190520	(186,876)
Other Reg Liab	283440	(2)
Deferred Rate Case	283440	(94,335)
Retiree Healthcare	283440	(174,070)
Regulatory Pension	283440	(88,426)
Retiree Healthcare Regulatory	283440	(32,320)
ARO Regulatory	283440	(7,076)
		(17,423,476)
<b>Total Direct ADIT as of 06/30/2014</b>		<b>(17,169,122)</b>
<b>Plus: Allocated 282</b>		<b>(2,141,836)</b>
<b>Total ADIT as of 06/30/2014</b>		<b>(19,310,958)</b>
	190	2,922,280
	282	(21,842,951)
	283	(390,287)
		<b>(19,310,958)</b>

**BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC  
d/b/a BLACK HILLS ENERGY  
DOCKET NO. 14-BHCG-502-RTS  
KANSAS CORPORATION COMMISSION  
DATA REQUEST NO. KCC-280**

DATE OF REQUEST: 8/28/2014  
DATE RESPONSE DUE: 9/08/2014  
REQUESTOR: Kansas Corporation Commission  
AUDITOR: Kristina Luke-Fry  
ANSWERED BY: Ann Stichler  
DATE RESPONDED: 9/02/2014  
SUBJECT: Payroll Tax  
REFERENCE: KCC-280

**REQUEST:**

Please provide support for the payroll tax amount of 8.29% utilized in Black Hills' response to Staff Data Request 251. Support should include but not be limited to all supporting calculations, assumptions, documentation, etc., used to derive the 8.29%.

**RESPONSE:**

The percentage of 8.29% was derived by calculating per book payroll taxes as a percentage of per book payroll. Please refer to the attachment provided in KCC-266 which shows a comparison of four 12-month periods. This percentage is reasonable in comparison to other years, plus assumes roughly 7.65% for FICA/OASDI, Federal Unemployment Tax of .6% of the first \$7,000 and State Unemployment Tax at various state rates.

**ATTACHMENT(S):**

None

### **Verification of Response**

I have read the foregoing information request and answer(s) thereto and find the answer(s) to be true, accurate, full and complete and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this information request.

**Signed: /s/ Robert Amdor**

**Date: September 2, 2014**

**CERTIFICATE OF SERVICE**

14-BHCG-502-RTS

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 12<sup>th</sup> day of September, 2014, to the following:

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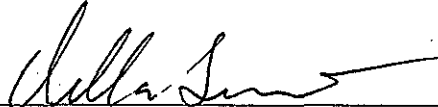
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Administrative Specialist