

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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

Docket No.

14-BHCG-502 -RTS

DIRECT TESTIMONY OF

STEVEN M. JUREK

FOR BLACK HILLS / KANSAS GAS UTILITY COMPANY, LLC

1

2 **I. NAME AND POSITION**

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

4 A. My name is Steven M. Jurek, and my business address is 1102 East 1st Street,
5 Papillion, NE 68046.

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

7 A. I am employed by Black Hills Corporation ("BHC") as Vice President of
8 Regulatory Services.

9 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

10 a. I am responsible for the regulatory policy and energy efficiency programs for
11 Kansas, Nebraska, Wyoming, Iowa and South Dakota. Among my
12 responsibilities is the oversight of regulatory activities for Black Hills / Kansas
13 Gas Utility Company, LLC (hereafter "Black Hills Kansas" or "Company")

1 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND BUSINESS**
2 **EXPERIENCE.**

3 A. I am a graduate of Creighton University. I have a BSBA degree with a
4 specialization in Finance. I have worked for the Company and its predecessor
5 companies since 1980 and have held various positions in budgeting, financial
6 planning, marketing strategy and regulatory affairs. I have held my present
7 position with BHC since 2008, when it acquired various properties formerly
8 owned by Aquila, including the natural gas properties in Kansas. During my
9 career, I have provided testimony before regulatory agencies in the states of
10 Kansas, Colorado, Iowa, Kansas, Minnesota, Missouri, West Virginia and
11 Wisconsin.

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

13 A. My testimony will:

- 14 • Sponsor the rate application and explain why Black Hills Kansas is
- 15 seeking rate relief;
- 16 • Provide an overview of BHC; and
- 17 • Introduce the other Black Hills Kansas witnesses.

18

19 **II. RATE APPLICATION**

20 **Q. WHEN WAS THE LAST RATE CASE FOR BLACK HILLS KANSAS ?**

21 A. The last rate filing for Black Hills Kansas' customers was in 2006 based on a test
22 period ending June 30, 2006. At that time, our customers were served by Aquila,

1 Inc. BHC acquired the former Aquila properties and began serving our Kansas
2 customers in 2008.

3 **Q. PLEASE SUMMARIZE THE RATE APPLICATION.**

4 A. The Company's rate change application requests a \$7,278,700 increase in
5 permanent rates based on calendar year 2013. Applicant's request for an overall
6 revenue increase of \$7.3 million is the result of increasing base rates by the \$2.2
7 million currently collected through the GSRS Surcharge by excluding the
8 revenues from the overall deficiency, and re-establishing the current level of Ad
9 Valorem expense through base rates as provided in the revenue deficiency's cost
10 of service. In this regard, the \$4.4 million attributable to the GSRS Surcharge
11 plus the AVTS will be moved into base rates. Since \$2.2 million relating to the
12 AVTS that is included in the \$7.3 million request has already been approved by
13 the Commission, the amount of the request that has not already been approved
14 by the Commission is \$5.1 million.

15 Black Hills Kansas proposes three alternative ratemaking concepts: 1) Future
16 Track, which is a workforce development program the Company has initiated in
17 each operating state to hire ahead and train employees in preparation for a large
18 number of retirements expected over the next eight years. The direct testimony
19 of Jennifer Landis explains this program and the reasons for the Company
20 implementing this program in detail; 2) an Accelerated Pipeline Replacement
21 Rider ("APRR"), which is a recovery mechanism that authorizes the recovery of
22 costs related to safety related capital investments; and 3) a Bypass Revenue
23 Rider ("BRR"), which provides ratepayers a credit for any and all revenue

1 received from several customers considered to be bypass threats. The direct
2 testimony of Lon Meyer and Jason Keil explain the APRR in detail. The direct
3 testimony of Thomas Sullivan explains the BRR. Black Hills Kansas is also
4 requesting to implement Pension and Post Retirement and Other Benefits
5 (“OPEB”) trackers similar to those approved by the Commission for the other
6 major natural gas public utilities operating in Kansas.

7 **Q. PLEASE EXPLAIN THE COMPANY’S COST OF SERVICE STUDY AND RATE**
8 **DESIGN.**

9 A. The direct testimony of Black Hills Kansas’ consultant Tom Sullivan contains a
10 detailed explanation of the class cost of service study and rate design proposals.

11 **Q. IS BLACK HILLS KANSAS PROPOSING A CHANGE IN ITS DEPRECIATION**
12 **RATES?**

13 A. Yes. Black Hills Kansas has included a depreciation study prepared and
14 sponsored by consultant John Spanos. Black Hills Kansas has used that
15 depreciation study to propose new depreciation rates in this case.

16 **Q. PLEASE SUMMARIZE THE REASONS FOR THE RATE INCREASE**
17 **REQUEST.**

18 A. As explained above, the last rate case for the Kansas operations was in 2006.
19 The rates established eight years ago are not adequate to offset the effects of
20 inflation and support the Kansas operations. The primary drivers of the revenue
21 deficiency are capital investment and increases in operating and maintenance
22 costs. Net rate base has increased over \$50 million (a 62 percent increase) since
23 the last case, and O&M costs have increased \$5.5 million (a 23 percent increase,

1 approximately the same rate as inflation). Although Black Hills Kansas has
2 completed several small acquisitions since 2006, margins have not increased
3 enough to offset these cost increases and usage and margins per customer are
4 declining due to a number of factors, including the customers' use of more
5 efficient equipment and appliances.

6 **Q. WHAT OTHER EVENTS DRIVE THE NEED FOR THE REQUEST?**

7 A. There is an increased emphasis on federal and state pipeline safety standards
8 and reporting, which require additional staffing in our engineering and operations
9 departments. The Company also has a significant aging workforce challenge,
10 with over half its workforce expected to retire between 2013 and 2021. The direct
11 testimony of Jennifer Landis explains the Company's plan to hire and train
12 replacement employees. Black Hills Kansas also must manage a lack of
13 customer growth due to the rural nature of our operations, and a geographically
14 disbursed service territory.

15 **Q. HAS BLACK HILLS KANSAS EFFECTIVELY CONTAINED COSTS AND**
16 **IMPROVED OPERATING EFFICIENCIES?**

17 A. Yes, the Company has been effective in controlling costs and improving
18 efficiency. Total operating and maintenance costs (including Kansas direct,
19 holding company allocations and service company allocations) have increased
20 less than the rate of inflation since the acquisition in 2008. The Company has
21 transformed since 2006, with a consolidation of numerous computer systems,
22 installation of automated meter reading, numerous continuous improvement
23 projects, and various customer service enhancements. The direct testimony of

1 Lon Meyer provides a more detailed explanation of the many efficiencies
2 produced over the last eight years that have improved customer satisfaction and
3 helped the utility maintain reasonable costs.
4

5 **III. BLACK HILLS CORPORATION OVERVIEW**

6 **Q. PROVIDE AN OVERVIEW OF BHC AND ITS SUBSIDIARIES.**

7 A. BHC is a 130 year old diversified energy company headquartered in Rapid City,
8 South Dakota. The company operates as a holding company under the Public
9 Utility Holding Company Act of 2005. It operates in the United States with two
10 major business groups: utilities, which deliver retail electric and natural gas
11 service, and non-regulated energy, which is involved in various wholesale energy
12 businesses.

13 **Q. WHAT IS THE RELATIONSHIP BETWEEN BHC AND BLACK HILLS** 14 **KANSAS?**

15 A. BHC acquired the former Aquila properties in 2008 and placed ownership of
16 those properties in a subsidiary, Black Hills Utility Holdings (“BHUH”). Black Hills
17 Kansas is owned by BHUH.

18 **Q. WHAT OTHER REGULATED UTILITIES ARE OWNED BY BHC?**

19 A. As shown in Exhibit SMJ-1, BHC owns distribution utilities in Kansas, Colorado,
20 Iowa, Nebraska, South Dakota and Wyoming. The utilities operate as Black Hills
21 Energy and Cheyenne Light.

22 **Q. WHAT COMPANIES ARE INCLUDED IN BHC’S NON-REGULATED ENERGY** 23 **GROUP?**

1 A. BHC's non-regulated energy businesses include Wyodak Resources
2 Development Corporation (Wyodak Resources), which produces and sells coal;
3 Black Hills Exploration and Production, Inc. (BHE&P), which produces oil and
4 natural gas; and Black Hills Electric Generation, LLC and its subsidiaries (BHEG)
5 which is an independent power producer.

6 **Q. WHAT PURPOSE DOES BHUH SERVE?**

7 A. BHUH is a subsidiary of BHC that owns the utility distribution assets acquired in
8 the Aquila acquisition in 2008.

9

10 **IV. BLACK HILLS KANSAS WITNESSES**

11 **Q. PLEASE IDENTIFY THE WITNESSES THAT HAVE FILED TESTIMONY IN**
12 **SUPPORT OF BLACK HILLS KANSAS' APPLICATION?**

13 A. Black Hills Kansas' Application is supported by the direct testimony of the
14 following witnesses:

15 1. Lon P. Meyer, Director of Kansas Operations. Mr. Meyer describes the
16 Company's Kansas operations; explains the Company's actions to control
17 costs since the last rate case; explains challenges caused by an aging
18 workforce and employee retirements, with a proposal to hire and train
19 replacement workers.

20 2. Richard G Petersen, Director of Regulatory Accounting. Mr. Petersen
21 supports the accounting schedules and pro forma adjustments related to the
22 Application.

- 1 3. Thomas L. Sullivan, consultant. Mr. Sullivan sponsors the Company's class
2 cost of service study, weather normalization adjustment, irrigation adjustment,
3 BRR adjustment and rate design proposal.
- 4 4. Jennifer C. Landis, Director of Human Resources and Talent Management.
5 Ms. Landis explains the Company's aging workforce challenges and the
6 Future Track Workforce Development Program.
- 7 5. Laura A. Patterson, Director of Compensation and Benefits. Ms. Patterson
8 supports the level of employment compensation included in Black Hills
9 Kansas' cost of service.
- 10 6. Adrian MacKenzie, consultant. Mr. McKenzie supports Black Hills Kansas'
11 proposed cost of equity in this case.
- 12 7. Brian G. Iverson, Vice President and Treasurer. Mr. Iverson addresses the
13 Company's cost of debt, capital structure, and recent debt refinancing.
- 14 8. John J. Spanos, consultant. Mr. Spanos recently performed and sponsored a
15 depreciation study on the Company's Kansas and Service Company assets.
- 16 9. Ann L. Stichler, Senior Regulatory Analyst. Ms. Stichler will support various
17 accounting adjustments, including the Future Track Workforce Development
18 Program, Gas Supply software system replacement, revenues and expenses
19 relating to the recent acquisition by Black Hills Kansas of the Anadarko gas
20 utility, and the payroll annualization adjustment.
- 21 10. Jason S. Keil, Regulatory Analyst. Mr. Keil supports various accounting
22 adjustments, including post-test year capital additions, APRR Rider and tariff
23 changes.

1 11. Jodi L. Culp, Director of Gas Supply Services. Ms. Culp discusses the Gas
2 Management System Project being implemented by BHC to better serve
3 BHC's natural gas and electric utilities' gas supply needs.

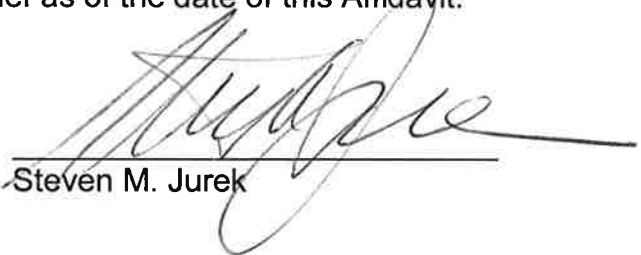
4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A. Yes.

State of Nebraska)
) ss
County of Douglas)

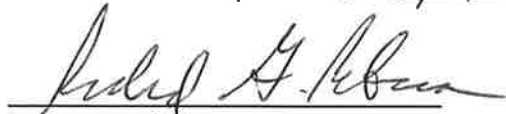
AFFIDAVIT OF STEVEN M. JUREK

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



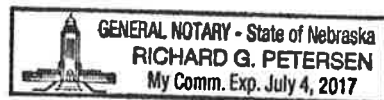
Steven M. Jurek

Subscribed and sworn to before me,
A Notary Public, in and for said County
and State, this 10th day of April.



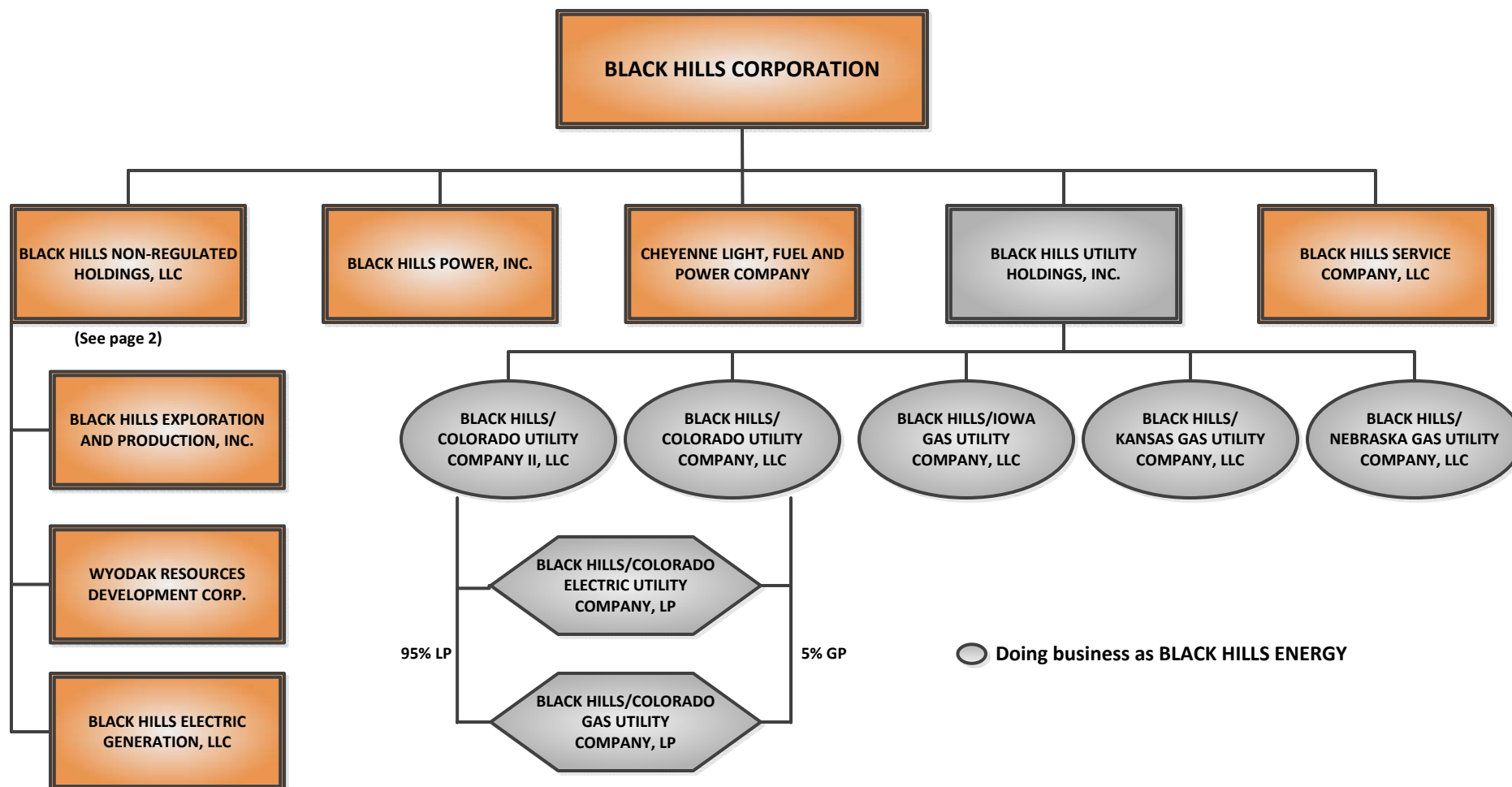
Notary Public

My Commission expires: 7/4/17



BLACK HILLS CORPORATION ORGANIZATIONAL CHART

Exhibit SMJ-1



BLACK HILLS CORPORATION ORGANIZATIONAL CHART

