

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

JUL 15 2011

by  
State Corporation Commission  
of Kansas

In the Matter of the Application of Black Hills/Kansas )  
Gas Utility Company, LLC, d/b/a Black Hills Energy, for )  
Approval of the Commission for Gas System Reliability )  
Surcharge per K.S.A. 66-2201 through 66-2204 )

Docket No. 12-BHCG- 055 -TAR

**APPLICATION**

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

1. Black Hills is a limited liability company with its principal place of business in Kansas at 110 E. 9<sup>th</sup> Street, Lawrence, Kansas 66044. Black Hills is duly authorized to transact business in the State of Kansas, holds appropriate certificates from this Commission to transact business as a natural gas public utility and is now and has been engaged in the purchase, transmission, sale and distribution of natural gas in the State of Kansas in accordance with the laws of said state and the rules and regulations of this Commission.

2. Black Hills serves approximately 108,500 customers in 66 communities and in 35 surrounding counties in Kansas. Operation centers are located in the major cities and towns served by Black Hills which include Lawrence, Wichita, Garden City, Dodge City, Liberal, and Goodland. Black Hills currently operates 283 miles of transmission lines and 2,582 miles of distribution lines and 97,720 service lines in Kansas.

3. In 2006, Senate Bill 414, the Gas Safety and Reliability Act, was passed into law. Under this law, a utility "may file a petition and proposed rate schedules with the commission to

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

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

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

5. Exhibit JAW-1, which is sponsored by Mr. Watkins and filed in support of this Application, is an index of the projects being included in this GSRS proposal. Exhibit JAW-2 is a summary of each project. There are two groups of projects being submitted. The first group includes safety-related system replacements and includes 68 specific projects and blanket work orders. The second group consists of governmentally mandated road relocation projects which have not been reimbursed to the natural gas utility and includes 16 projects. Both of these types of projects are eligible for inclusion in a GSRS proposal. Exhibit JAW-1 shows the location, project description, work order number and completion date for each of the projects. The safety-related project list also includes a reference to the compliance section of the state or federal pipeline safety requirements as replacements for existing facilities

6. The inclusion criteria for the safety-related projects, according to K.S.A. 66-2202, are as follows: "(1) Mains, valves, service lines, regulator stations, vaults and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities; and (2) Main relining projects, service line insertion projects, joint encapsulation projects

and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements."

7. The inclusion criteria for the road relocation projects, according to K.S.A. 66-2202, are as follows: "Facility relocations required due to construction or improvement of a highway, road, street, public right of way or other public work by or on behalf of the United States, this state, a political subdivision of this state or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the natural gas utility."

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

9. Exhibit JAW-2 and **CONFIDENTIAL** Exhibit JAW-3, which are sponsored by Mr. Watkins, include the supporting documentation for each of those projects. For each of the 68 specific safety-related projects, detailed information including a map of the relocation and summary of the project is included. For each of the 16 road relocation projects, detailed information including the request to relocate the facility (from the city, county, or state), a map of the replacement area, and summary of the project is included.

10. Pursuant to the provisions of K.S.A. 66-2204, Exhibit SAP-1, which is attached to Mr. Peters's testimony that is being filed in support of this Application, shows the increase to rate base and the calculation of the GSRS revenue requirement. In addition to the new GSRS projects, Exhibit SAP-1 includes an update of the revenue requirement of the GSRS projects originally included in Docket Nos. 08-AQLG-852-TAR ("852 Docket"), 09-BHCG-886-TAR ("886 Docket") and 10-BHCG-786-TAR ("786 Docket") to account for an additional year of accumulated depreciation and to account for current accumulated deferred income taxes.

11. K.S.A. 66-2203 states that "the commission may not approve a GSRS to the extent it

would produce total annualized GSRS revenues below the lesser of \$1,000,000 or 1/2 % of the natural gas public utility's base revenue level approved by the commission in the natural gas public utility's most recent general rate proceeding." Based on Black Hills' most recent general rate proceeding, that amount would total \$188,826.

12. Components of the rate base calculation include Gross Plant, which is the original cost of all eligible projects, less any related cost of removal and abandonment of the existing system; Accumulated Depreciation, which has been calculated by project based on the approved depreciation rate for that type of plant; and Accumulated Deferred Income Taxes, which has been calculated by project based on the type of plant. Exhibit SAP-2 and SAP-3 attached to Mr. Peters's testimony details the GSRS net plant calculation and the deferred taxes calculation.

13. None of the projects included in the GSRS filing were included Black Hills' last rate filing. These projects were completed subsequent to the June 30, 2006 test period included in Black Hills' last general rate filing. In addition, none of the projects being considered in this GSRS filing were included in the Company's GSRS filing in the 852 Docket, 886 Docket or 786 Docket.

14. The Stipulated Settlement Agreement in Black Hills' most recent rate case, Docket No. 07-AQLG-431-RTS ("431 Docket"), sets for the provisions for the return calculation. It states, "the debt/equity ration shall be 49.27%/50.73%, the cost of debt shall be 7.13% and the cost of equity shall be the average of the cost of equity used or agreed to be used by the commission in calculating the GSRS surcharge for the other Kansas gas utility companies." The cost of equity included in this filing is 10.2%, which is the cost of equity used by Black Hills and approved by the Commission in the 852, 886 and 786 Dockets.

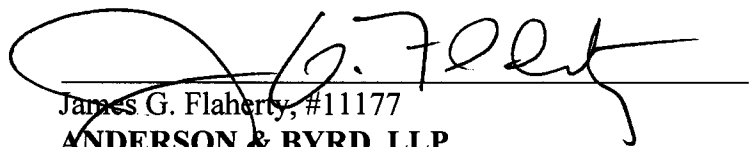
15. Exhibit SAP-4 attached to Mr. Peters's testimony shows the allocation of the GSRS revenue by class. The customer class allocation is pursuant to the Stipulated Settlement Agreement

in the 431 Docket and is the same as that used by Black Hills and approved by the Commission in the 852, 886 and 786 Dockets.

16. K.S.A 66-2204 (e) (1) states, "A GSRS shall be charged to customers as a monthly fixed charge and not based on volumetric consumption. The monthly charge shall not increase more than \$.40 per residential customer over the base rates in effect for the initial filing of a GSRS. Thereafter, each filing shall not increase the monthly charge more than \$.40 per residential customer over the most recent filing of a GSRS." Exhibits SAP-1 and SAP-4 include an adjustment to reduce the Company's request for the statutory limit. The proposed GSRS Surcharge increase is \$0.40 per month for a residential customer. When added to the current GSRS charge for a residential customer (\$0.73 per month), the proposed residential GSRS is \$1.13 per month.

17. Exhibit SAP-5 attached to Mr. Peters's testimony is the tariff sheet for the proposed GSRS surcharge.

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



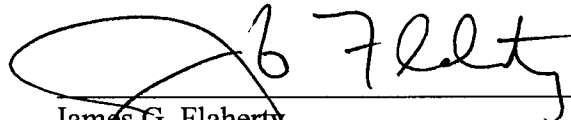
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LLC, d/b/a Black Hills Energy

**VERIFICATION**

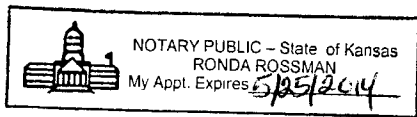
STATE OF KANSAS            )  
                                          )ss:  
COUNTY OF FRANKLIN    )

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

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

  
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James G. Flaherty

**SUBSCRIBED AND SWORN** to before me this 14<sup>th</sup> day of July, 2011.



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

Appointment/Commission Expires: