

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

Received
on

SEP 14 2011

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.)
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by
State Corporation Commission
of Kansas

Docket No. 12-BHCG-055-TAR

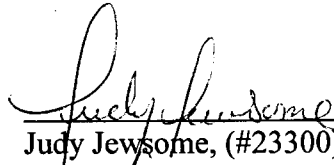
STAFF'S MOTION TO FILE A REVISED REPORT AND RECOMMENDATION

The Staff of the State Corporation Commission of the State of Kansas (Staff and Commission respectively) files this motion to amend the initial report and recommendation formally filed on September 12, 2011. In support of its Motion, Staff states as follows:

1. On July 15, 2011, Black Hills/Kansas Gas Utility Company, LLC d/b/a Black Hills Energy (Black Hills) filed an application for a new tariff schedule encompassing a Gas System Reliability Surcharge (GSRS).
2. On September 12, 2011, Staff filed its Report and Recommendation in this matter.
3. Since its initial filing, Staff has identified a calculation error requiring Staff to amend its Report and Recommendation. This revision reflects a \$4,373 increase in Staff's initial recommended revenue requirement of allowance from \$623,150 to \$627,523. Likewise, Staff amended its initial recommendation that Black Hills be authorized to collect a total GSRS revenue per year from \$1,635,496 to \$1,639,869.

WHEREFORE, Staff respectfully requests the Commission to grant this Motion and issue an Order approving Staff's submission of the Revised Report and Recommendation, dated September 14, 2011, as attached hereto.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Judy Jewsome", is written over a horizontal line.

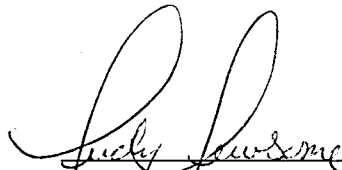
Judy Jewsome, (#23300)
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For Commission Staff

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

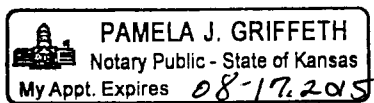
VERIFICATION

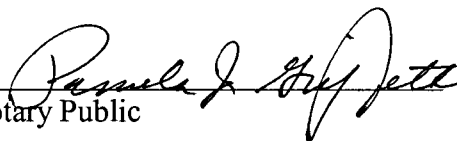
Judy Jewsome, being duly sworn upon her oath deposes and states that she is Assistant Litigation Counsel for the State Corporation Commission of the State of Kansas, that she has read and is familiar with the foregoing *Staff's Motion to File a Revised Report and Recommendation* and that the statements contained therein are true and correct to the best of her knowledge, information and belief.



Judy Jewsome, # 23300
Assistant Litigation Counsel
Kansas Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 14th day of September, 2011.


PAMELA J. GRIFFETH
Notary Public - State of Kansas
My Appt. Expires 08-17-2015



Notary Public

My Appointment Expires: August 17, 2015

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Mark Sievers, Chairman
Ward Loyd, Commissioner
Thomas E. Wright, Commissioner

Sam Brownback, Governor

**REVISED REPORT AND RECOMMENDATION
UTILITIES DIVISION**

TO: Chairman Mark Sievers
Commissioner Ward Loyd
Commissioner Thomas E. Wright
Patti Petersen-Klein, Executive Director

FROM: Dan Ostahowski
Kristina Luke
Justin Grady

DATE: September 14, 2011

DATE SUBMITTED TO EXECUTIVE DIRECTOR: _____

DATE SUBMITTED TO LEGAL: 9/14/11

DATE SUBMITTED TO COMMISSIONERS: 9/14/11

SUBJECT: Docket Number 12-BHCG-055-TAR: In the Matter of the Application of Black Hills Energy for Approval of the Commission for Gas System Reliability Surcharge per K.S.A. 66-2201 through 66-2204.

SUMMARY

In the subject docket, Black Hills Energy, (BHE) filed a request for amending their tariff schedule, labeled the Gas System Reliability Surcharge, (GSRS). This amended tariff is designed to allow for the adjustment of BHE's rates and charges to provide for the recovery of an additional \$10.1 Million of capital costs for eligible infrastructure system replacements. If granted in full, Black Hills' surcharge request would result in an additional GSRS revenue requirement of \$639,144.

The relevant statutes require the Commission Staff to examine information from the utility and confirm that the underlying costs are in accordance with the statute. Staff is required to file its report and recommendation within 60 days of receiving the application. Likewise, the statutes oblige the Commission to issue a final order on the application within 120 days of receipt. Staff's report and recommendation is due by September 13, 2011. In this case, the final order is due by November 14, 2011.

As required, the Commission Staff has reviewed the record submitted by BHE and recommends approximately \$9,583,316 of BHE's proposed infrastructure replacement capital costs be

included in the requested surcharge. In Exhibits JAW-1 and JAW-2 of Mr. Jerry Watkins's direct testimony, BHE, provided a list and short descriptions of: 68 safety-related projects (designated as "SR1- SR68"); 2 blanket safety-related projects (including many small projects designated as "SR 69" and "SR 70"); and, 16 public works projects (designated as "R1- R16") to be considered for cost recovery through the GSRS mechanism. Based on the review of BHE's list and responses to Staff's data requests, Staff believes that a number of projects worth an estimated total cost of \$495,000 do not meet the requirements for recovery under the Gas Safety and Reliability Policy Act found in K.S.A. 66-2202(f). The projects recommended for disallowance are included in blanket main replacement SR-69 and were third party damage leak repairs where a small section of pipe was replaced.

Commission Staff recommends approval of \$627,523 of the proposed surcharge, reflecting the changes described in detail below.

BACKGROUND:

The Gas Safety and Reliability Act (GSRS) was enacted by the Kansas legislature in July of 2006. This Act allows natural gas public utilities to recover costs for certain infrastructure projects through a monthly customer surcharge. The Act only applies to projects that entail the replacement of infrastructure or the extension of the useful life of infrastructure. The replacement projects are further limited to those projects that are required for compliance with pipeline safety regulations or for facility relocation projects caused by other public works projects such as road improvement.

In its review of the application, the Commission is required to confirm the replacement projects included in the application meet the provisions of the Act. The Commission is also charged with the obligation of confirming the proposed surcharge has been properly calculated and is based solely on the projects included in the application. As a first step in making this determination, Staff relies on two essential provisions of the statute. Those requirements, with emphasis provided, are as follows:

K.S.A. 66-2202 (f)

"natural gas utility plant projects" may consist **only** of the following:

(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;**

(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;** and

(3) facility, relocations required due to construction or improvement of a highway, road, street, public way or other public work....provided that the costs related to such projects have not been reimbursed to the natural gas public utility;

K.S.A. 66-2203 (a)

...a natural gas public utility providing gas service may file a petition...to establish or change GSRS rate schedules...to provide for the recovery of costs for eligible infrastructure system **replacements**.

Kansas pipeline safety regulations are primarily adopted from federal pipeline safety regulations. As stated in the scope of the federal code, the regulation prescribes the **minimum** safety requirements for pipeline facilities. When evaluating projects for the applicability of GSRS, the decision must rest on defining which portion of the project brings the system into compliance with safety regulations and which portion of a given project is being completed as a business decision to renew an aging infrastructure or improve operating efficiency. To make this determination, Staff must rely on the description of each project provided in the operator's application or through responses to data requests.

ANALYSIS:

Pipeline Safety

BHE filed to recover costs incurred by 68 safety-related (SR-#) projects and two blanket replacement projects (SR- 69 and SR – 70) in their GSRS. BHE defines a blanket work order as a collection of small system improvement projects required to be less than \$10,000 but typically less than \$5,000.¹ The first blanket project (SR-69) covered replacements of short sections of main, while the second (SR-70) covered replacement of service and yard-lines. Collectively, service and yard lines can be defined as the natural gas piping from the main to the customer's building wall. All of the safety related projects (SR-1 through SR-68) and the blanket service replacement (SR-70) meet the criteria for inclusion in the GSRS surcharge. These projects include an array of improvements, but most commonly involve the replacement of a section of outdated or corroded main and the associated services.

As requested in Staff's data request identified as Data Request No. KCC-9, BHE provided details on the 252 projects included in the SR-69 blanket main replacement. Of the 252 main replacement projects included in the blanket work order, 99 were prompted by third party damage. Third party damage occurs when an excavator doing work not related to gas operations damages the gas facilities. Typically, excavation damage is caused by one of two sources: The excavator not using reasonable care when working around properly marked pipelines; or the utility failing to provide accurate indications of the location of its facilities. In the case of those damages that are the excavator's fault, it has been Staff's experience that the excavator is billed for repair charges by the utility operator.

It is Staff's opinion that main replacements due to third party damage do not meet the requirements of GSRS. Aside from the fact that BHE may have been already reimbursed for damage related costs that were not the fault of the BHE locator, Staff believes the simple repair of a damaged pipeline restores gas service - does not extend the useful life or enhance the integrity of pipeline system components.² It appears to Staff that the majority of the third party

¹ JAW-1 pg. 5

² K.S.A. 66-2202(f)(2): "natural gas utility plant projects" may consist only of the following: ... 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

damage occurred on plastic mains. Plastic pipe damaged or broken by an outside force such as a third party excavator cannot be repaired, but rather the damaged section must be cut out and replaced. In Staff's opinion, the GSRS statutes were designed to encourage public utilities to make capital investments that will improve or enhance the reliability of their natural gas delivery system. In order to prevent a utility from recovering daily operations and maintenance costs as a surcharge, the statutes limited the types of projects that can be considered for GSRS recovery to public works relocations or those required by pipeline safety code. In Staff's opinion, it was not the intent of the GSRS Act to allow recovery through a surcharge for routine leak repairs – even though leak repair is a pipeline safety code requirement. Therefore, Staff recommends the Commission not allow recovery for projects in which the pipe was replaced due to third party damage and was simply a leak repair made to restore the pipeline to service.

Since BHE did not include a detailed accounting record in this filing, a reasonable average cost of \$5,000 for each of the 99 third party damage events will be assumed³, for a total of \$495,000 disallowed from this GSRS filing. Staff finds that the remaining projects filed under the SR-69 blanket main replacement meet the criteria for inclusion in the GSRS tariff. As noted earlier, Staff is required by statute to provide a recommendation to the Commission within 60 days of a GSRS application being filed. Because this time schedule does not permit adequate time for a more thorough analysis of the 99 third-party damage projects, Staff based its review on the information provided in exhibit JAW-2 and DR-9. However, Staff will continue to review the appropriateness of the various projects. If a revision to this recommendation is necessary, Staff will file additional information prior to the Commission issuing its order in this case.

Public Works Projects

BHE filed to include 16 facility relocation projects in their GSRS tariff, detailed in Exhibits JAW-1 and JAW-2 as "R - #". The GSRS statute identifies a public works project as any project where a political entity or any entity having eminent domain authority requires a gas facility relocation.⁴ All 16 projects listed meet the requirements for GSRS recovery and therefore, Staff recommends that the full amount of requested by BHE be included in the GSRS surcharge.

Accounting

RECOMMENDATION:

Staff is recommending approval of Black Hill's new GSRS revenue requirement of \$627,523. In addition, Staff recommends that Black Hills be allowed to continue collecting its current GSRS surcharge approved in Docket No. 10-BHCG-786-TAR (786 Docket), amounting to \$1,012,346. In total Black Hills should be authorized to collect \$1,639,869, in GSRS revenues per year, via the per-customer surcharges listed on Line 18 of Exhibit KAL-2, as attached to Staff's Report and Recommendation.

Staff performed an audit of Black Hill's application to verify that the surcharge was properly calculated and based solely on the projects included in the application. The findings of Staff's

³ JAW-1 pg. 5

⁴ K.S.A. 66-2202(f)(3): "natural gas utility plant projects" may consist only of the following: ... facility, relocations required due to construction or improvement of a highway, road, street, public 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 public utility;

audit are presented below. Most of the discussion points have a revenue requirement impact which is included in Staff's revenue requirement calculation.

- Staff issued discovery requesting work orders and general ledger entries in support of a random sample of projects included in the application. Staff encountered no material errors in this regard.
- Staff sought and obtained various information related to the different components of the GSRS revenue requirement requested by Black Hills. These include accumulated depreciation, accumulated deferred income taxes, depreciation expense and the true-up of revenues collected during the previous year versus revenues authorized in the 786 Docket. During Staff's audit it was discovered that Black Hills did not calculate the necessary depreciation expense offset associated with retirements related to the blanket work orders discussed above (SR-69 and SR-70). Staff sought and obtained the relevant retirement information, and revised the GSRS calculation to reflect the impact of these retirements on depreciation expense. The details of Staff's revised calculations are attached to Staff's revised report and recommendation.
- During Staff's review, Staff discovered that Black Hill's State tax rate was included at 7.05% instead of the current 7.0%. This change was communicated with Black Hills and reflected in Staff's revised surcharge calculation.

RECOMMENDATION:

Approve Black Hills' revised GSRS increase of \$627,523, to be collected via the per-customer surcharges listed on Line 18 of Exhibit KAL-2 as attached to Staff's Report and Recommendation with the following conditions:

1. Black Hills must file updated GSRS tariffs to reflect the changes in the per-customer surcharge as discussed above prior to billing the new surcharges.
2. Staff will insure that the amounts recovered via this surcharge will be subject to an appropriate true-up calculation in Black Hill's next GSRS filing, and any over/under recoveries will be appropriately refunded/recovered from customers at that time.

BLACK HILLS ENERGY

PROPOSED RATE ADJUSTMENT FOR GSRS

| | [A] | [B] | [C] | [D] | [E] | [F] |
|----------|-----------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Line No. | | TOTAL | New GSRS Projects | UPDATE 786-TAR | UPDATE 886-TAR | UPDATE 852-TAR |
| 1 | GAS PLANT | \$17,958,428 | \$ 9,583,316 | \$ 2,406,658 | \$ 3,564,820 | \$ 2,403,634 |
| 2 | ACCUMULATED DEPRECIATION | 303,731 | 289,784 | (17,552) | (8,332) | 39,831 |
| 3 | NET GAS PLANT | <u>\$17,654,697</u> | <u>\$ 9,293,532</u> | <u>\$ 2,424,210</u> | <u>\$ 3,573,152</u> | <u>\$ 2,363,803</u> |
| 4 | ACCUMULATED DEFERRED INCOME TAXES | <u>(4,248,529)</u> | <u>(2,413,279)</u> | <u>(654,604)</u> | <u>(948,214)</u> | <u>(232,432)</u> |
| 5 | TOTAL RATE BASE | <u><u>\$13,406,168</u></u> | <u><u>\$ 6,880,253</u></u> | <u><u>\$ 1,769,606</u></u> | <u><u>\$ 2,624,938</u></u> | <u><u>\$ 2,131,371</u></u> |
| 6 | RATE BASE | \$13,406,168 | \$ 6,880,253 | \$ 1,769,606 | \$ 2,624,938 | \$ 2,131,371 |
| 7 | RATE OF RETURN | <u>8.6867%</u> | <u>8.6867%</u> | <u>8.6867%</u> | <u>8.6867%</u> | <u>8.6867%</u> |
| 8 | REQUIRED OPERATING INCOME | \$ 1,164,554 | \$ 597,668 | \$ 153,720 | \$ 228,020 | \$ 185,146 |
| 9 | OPERATING INCOME AT PRESENT RATES | <u>(15,384)</u> | <u>(16,218)</u> | <u>(2,518)</u> | <u>(968)</u> | <u>4,321</u> |
| 10 | DEFICIENCY | \$ 1,179,937 | \$ 613,886 | \$ 156,238 | \$ 228,988 | \$ 180,825 |
| 11 | TAX FACTOR | <u>60.45%</u> | <u>60.45%</u> | <u>60.45%</u> | <u>60.45%</u> | <u>60.45%</u> |
| 12 | TOTAL GSRS REVENUE | <u><u>\$ 1,951,922</u></u> | <u><u>\$ 1,015,527</u></u> | <u><u>\$ 258,458</u></u> | <u><u>\$ 378,806</u></u> | <u><u>\$ 299,131</u></u> |
| 13 | TRUE-UP OF RECOVERIES THRU 4/2011 | <u>\$ (19,353)</u> | | | | |
| 14 | GRAND TOTAL | \$ 1,932,570 | | | | |
| 15 | AUTHORIZED IN DKT 10-BHCG-786-TAR | <u>\$ 1,012,346</u> | | | | |
| 16 | INCREMENTAL GSRS REVENUE | \$ 920,224 | | | | |
| 17 | LESS Statutory Limit Adjustment | <u>\$ (292,701)</u> | | | | |
| 18 | INCREMENTAL GSRS REVENUE REQUEST | <u><u>\$ 627,523</u></u> | | | | |

| FERC Plant Acct (A) | Plant Description (B) | In Srvc Date (C) | No. of Mos In srvc (D) | Original Cost (E) | Less: Retirements (F) | Depr Rate (G) | Annual Depr Exp (H)=E-F*G | Calculated A/D Based On In Srvc Date (I) | Net Plant For Rate Base (J) | Unit of Prop Adj for Tax (K) | 263(A) - Unicap Adj for Tax (L) | Net Plant for Accum Tax Depr (M) | 2008 Tax Depr Rate (N) | 2008 Tax Depr (O) | 2009 Tax Rate (P) | 2009 Tax Depr (Q) | 2010 Tax Rate (R) | 2010 Tax Depr (S) | 2011 Tax Depr Rate (T) | 2011 Tax Depr (U) | Accum Tax Depr (V) | Net Tax Basis (W) |
|---------------------|-----------------------------|------------------|------------------------|-------------------|-----------------------|---------------|---------------------------|--|-----------------------------|------------------------------|---------------------------------|----------------------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------------|-------------------|--------------------|-------------------|
| 367002 | Gas Trans - PE Mains | Jul-07 | 48 | \$ 2,688 | | 1.88% | \$ 54 | \$ 217 | \$ 2,871 | | | \$ 2,888 | 0.05 | 144 | 0.095 | 274 | 0.0855 | 247 | 0.0770 | 111 | 778 | \$ 2,112 |
| 367003 | Gas Trans - Steel Mains | Jul-07 | 48 | \$ 235 | | 1.88% | \$ 4 | \$ 16 | \$ 219 | | | \$ 235 | 0.05 | 12 | 0.095 | 22 | 0.0855 | 20 | 0.0770 | 9 | 83 | \$ 172 |
| 369003 | Trans- Meas & Reg Sta Eqp | Jul-07 | 48 | \$ 6,158 | | 1.57% | \$ 97 | \$ 388 | \$ 5,772 | | | \$ 6,158 | 0.05 | 308 | 0.095 | 585 | 0.0855 | 527 | 0.0770 | 237 | 1,657 | \$ 4,501 |
| 376002 | Distr - PE Mains | Jul-07 | 48 | \$ 467,819 | \$ (13,790) | 1.71% | \$ 7,764 | \$ 31,977 | \$ 435,842 | | | \$ 467,819 | 0.05 | 23,391 | 0.095 | 44,443 | 0.0855 | 39,999 | 0.0770 | 18,011 | 125,844 | \$ 341,975 |
| 376003 | Distr - Steel Mains | Jul-07 | 48 | \$ 17,205 | \$ (10,511) | 1.77% | \$ 118 | \$ 1,217 | \$ 15,988 | | | \$ 17,205 | 0.05 | 860 | 0.095 | 1,634 | 0.0855 | 1,471 | 0.0770 | 662 | 4,627 | \$ 12,578 |
| 380002 | Distr - PE Services | Jul-07 | 48 | \$ 725,702 | \$ (7,363) | 2.28% | \$ 16,378 | \$ 66,138 | \$ 659,594 | | | \$ 725,702 | 0.05 | 36,285 | 0.095 | 68,942 | 0.0855 | 62,048 | 0.0770 | 27,940 | 195,215 | \$ 530,487 |
| 380003 | Distr - Steel Services | Jul-07 | 48 | \$ (2,806) | \$ (15,719) | 2.98% | \$ (548) | \$ (332) | \$ (2,474) | | | \$ (2,806) | 0.05 | (140) | 0.095 | (267) | 0.0855 | (240) | 0.0770 | (108) | (755) | \$ (2,051) |
| 382001 | Distr - Meter Installation | Jul-07 | 48 | \$ 7,817 | \$ (47,215) | 2.08% | \$ (812) | \$ 644 | \$ 7,173 | | | \$ 7,817 | 0.05 | 391 | 0.095 | 743 | 0.0855 | 658 | 0.0770 | 301 | 2,103 | \$ 5,714 |
| 383001 | Distr - House Regulator | Jul-07 | 48 | \$ 478,808 | | 2.20% | \$ 10,534 | \$ 42,106 | \$ 436,702 | | | \$ 478,808 | 0.05 | 23,940 | 0.095 | 45,487 | 0.0855 | 40,938 | 0.0770 | 18,434 | 128,759 | \$ 350,009 |
| 385001 | Distr - Industrial Meas/Reg | Jul-07 | 48 | \$ 17,770 | | 1.99% | \$ 354 | \$ 1,414 | \$ 18,358 | | | \$ 17,770 | 0.05 | 889 | 0.095 | 1,688 | 0.0855 | 1,519 | 0.0770 | 684 | 4,780 | \$ 12,990 |
| | | | | \$ 1,721,598 | \$ (94,596) | | \$ 33,943 | \$ 143,783 | \$ 1,577,813 | \$ - | \$ - | \$ 1,721,598 | | \$ 89,080 | | \$ 163,551 | | \$ 147,197 | | \$ 66,281 | \$ 463,109 | \$ 1,258,487 |

Note: \$169,983 adjustment split between 376002 and 376003 in the same proportion as their unadjusted original cost

| | |
|--|--------------|
| Net Plant for Rate Base | \$ 1,577,813 |
| Cumulative Book/Tax Difference | \$ (319,326) |
| Kansas Effective Tax Rate | 0.3955 |
| Cumulative Deferred Taxes at 6/30/2011 | \$ (126,293) |

| FERC Plant Acct (A) | Plant Description (B) | In Srvc Date (C) | No. of Mos In srvc (D) | Original Cost (E) | Less: Retirements (F) | Depr Rate (G) | Annual Depr Exp (H)=E-F*G | Calculated A/D Based On In Srvc Date (I) | Net Plant For Rate Base (J) | Unit of Prop Adj for Tax (K) | 263(A) - Unicap Adj for Tax (L) | Net Plant for Accum Tax Depr (M) | 2008 Tax Depr Rate (N) | 2008 Tax Depr (O) | 2009 Tax Rate (P) | 2009 Tax Depr (Q) | 2010 Tax Rate (R) | 2010 Tax Depr (S) | 2011 Tax Depr Rate (T) | 2011 Tax Depr (U) | Accum Tax Depr (V) | Net Tax Basis (W) |
|---------------------|-----------------------------|------------------|------------------------|-------------------|-----------------------|---------------|---------------------------|--|-----------------------------|------------------------------|---------------------------------|----------------------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------------|-------------------|--------------------|-------------------|
| 367002 | Gas Trans - PE Mains | Jul-08 | 36 | \$ 3,609 | \$ (4) | 1.88% | \$ 68 | \$ 203 | \$ 3,406 | \$ 32 | \$ - | \$ 3,577 | 0.525 | 1,878 | 0.0475 | 170 | 0.0428 | 153 | 0.0385 | 69 | 2,270 | \$ 1,307 |
| 367003 | Gas Trans - Steel Mains | Jul-08 | 36 | \$ (25) | | 1.88% | \$ (0) | \$ (1) | \$ (25) | \$ - | \$ - | \$ (25) | 0.525 | (13) | 0.0475 | (1) | 0.0428 | (1) | 0.0385 | 0 | (15) | \$ (10) |
| 369003 | Trans- Meas & Reg Sta Eqp | Jul-08 | 36 | \$ (92) | | 1.57% | \$ (1) | \$ (4) | \$ (88) | \$ - | \$ - | \$ (88) | 0.525 | (46) | 0.0475 | (4) | 0.0428 | (4) | 0.0385 | (2) | (56) | \$ (32) |
| 376002 | Distr - PE Mains | Jul-08 | 36 | \$ 496,139 | \$ (431) | 1.71% | \$ 8,477 | \$ 25,428 | \$ 470,711 | \$ 4,465 | \$ - | \$ 491,674 | 0.525 | 258,129 | 0.0475 | 23,355 | 0.0428 | 21,044 | 0.0385 | 9,465 | 311,993 | \$ 179,681 |
| 376003 | Distr - Steel Mains | Jul-08 | 36 | \$ 1,509 | \$ (10,833) | 1.77% | \$ (165) | \$ 80 | \$ 1,429 | \$ 14 | \$ - | \$ 1,495 | 0.525 | 785 | 0.0475 | 71 | 0.0428 | 64 | 0.0385 | 29 | 949 | \$ 546 |
| 380002 | Distr - PE Services | Jul-08 | 36 | \$ 801,648 | \$ (16,570) | 2.28% | \$ 17,900 | \$ 54,782 | \$ 746,864 | \$ 7,215 | \$ - | \$ 794,431 | 0.525 | 417,076 | 0.0475 | 37,735 | 0.0428 | 34,002 | 0.0385 | 15,293 | 504,106 | \$ 290,325 |
| 380003 | Distr - Steel Services | Jul-08 | 36 | \$ 2,270 | \$ (20,113) | 2.98% | \$ (528) | \$ 201 | \$ 2,069 | \$ 20 | \$ - | \$ 2,250 | 0.525 | 1,181 | 0.0475 | 107 | 0.0428 | 96 | 0.0385 | 43 | 1,427 | \$ 823 |
| 382001 | Distr - House Regulator | Jul-08 | 36 | \$ 476,231 | \$ (7,852) | 2.20% | \$ 10,304 | \$ 31,402 | \$ 444,829 | \$ 4,288 | \$ - | \$ 471,945 | 0.525 | 247,771 | 0.0475 | 22,417 | 0.0428 | 20,199 | 0.0385 | 9,085 | 299,472 | \$ 172,473 |
| 385001 | Distr - Industrial Meas/Reg | Jul-08 | 36 | \$ 10,168 | \$ (49) | 1.99% | \$ 201 | \$ 806 | \$ 8,562 | \$ 92 | \$ - | \$ 10,076 | 0.525 | 5,290 | 0.0475 | 479 | 0.0428 | 431 | 0.0385 | 194 | 6,394 | \$ 3,682 |
| | | | | \$ 1,791,454 | \$ (55,852) | | \$ 36,255 | \$ 112,697 | \$ 1,678,757 | \$ 16,124 | \$ - | \$ 1,775,335 | | \$ 932,051 | | \$ 84,329 | | \$ 75,984 | | \$ 34,176 | \$ 1,126,540 | \$ 648,795 |

Note: \$129,987 adjustment split between 376002 and 376003 in the same proportion as their unadjusted original cost

| | |
|--|----------------|
| Net Plant for Rate Base | \$ 1,678,757 |
| Cumulative Book/Tax Difference | \$ (1,029,962) |
| Kansas Effective Tax Rate | 0.3955 |
| Cumulative Deferred Taxes at 6/30/2011 | \$ (407,350) |

Gas System Reliability Surcharge Filing (GSRF) Blanket Work Order Plant Data In Service In 2009
 Page 3 of 4
 Exhibit SAP-3

| FERC Plant Acct (A) | Plant Description (B) | In Srvc Date (C) | No. of Mos In srvc (D) | Original Cost (E) | Less: Retirements (F) | Depr Rate (G) | Annual Depr Exp (H)(I)-P/G | | Calculated A/D Based On In Srvc Date (I) | Net Plant For Rate Base (J) | Unit of Prop Adj for Tax (K) | 263(A) - Unicap Adj for Tax (L) | Net Plant for Accum Tax Depr (M) | 2009 Tax Rate (N) | 2009 Tax Depr (O) | 2010 Tax Rate (P) | 2010 Tax Depr (Q) | 2011 Tax Depr Rate (R) | 2011 Tax Depr (S) | Accum Tax Depr (T) | Net Tax Basis (U) | (V) | (W) |
|------------------------|-----------------------------|---------------------|---------------------------|----------------------|--------------------------|------------------|-------------------------------|-----------|---|--------------------------------|---------------------------------|------------------------------------|-------------------------------------|----------------------|----------------------|----------------------|----------------------|---------------------------|----------------------|--|----------------------|--------------|-----|
| | | | | | | | (H) | (I) | | | | | | | | | | | | | | | |
| 367002 | Gas Trans - PE Mains | Jul-09 | 24 | \$ 7,989 | | 1.88% | \$ 150 | \$ 300 | \$ 7,689 | | \$ 1,965 | \$ 6,024 | 0.5250 | 3,162 | 0.0475 | 286 | 0.0428 | 129 | 3,577 | \$ 2,447 | | | |
| 369003 | Trans- Meas & Req Sta Eqp | Jul-09 | 24 | \$ 3,546 | | 1.57% | \$ 56 | \$ 111 | \$ 3,437 | | \$ 873 | \$ 2,675 | 0.5250 | 1,404 | 0.0475 | 127 | 0.0428 | 57 | 1,588 | \$ 1,087 | | | |
| 376002 | Distr - PE Mains | Jul-09 | 24 | \$ 148,265 | \$ (1,013) | 1.71% | \$ 2,518 | \$ 5,064 | \$ 143,201 | | \$ 36,473 | \$ 111,792 | 0.5250 | 58,691 | 0.0475 | 5,310 | 0.0428 | 2,392 | 68,393 | \$ 45,399 | | | |
| 376003 | Distr - Steel Mains | Jul-09 | 24 | \$ 16,624 | \$ (1,060) | 1.77% | \$ 275 | \$ 588 | \$ 18,036 | | \$ 4,090 | \$ 12,535 | 0.5250 | 6,581 | 0.0475 | 595 | 0.0428 | 268 | 7,444 | \$ 5,091 | | | |
| 376007 | Distr - Mains other | Jul-09 | 24 | \$ 8,235 | \$ (830) | 1.77% | \$ 96 | \$ 220 | \$ 8,015 | | \$ 1,534 | \$ 4,701 | 0.5250 | 2,469 | 0.0475 | 223 | 0.0428 | 101 | 2,792 | \$ 1,909 | | | |
| 380002 | Distr - PE Services | Jul-09 | 24 | \$ 443,061 | \$ (15,140) | 2.28% | \$ 9,757 | \$ 20,176 | \$ 422,905 | | \$ 108,998 | \$ 334,083 | 0.5250 | 175,394 | 0.0475 | 15,869 | 0.0428 | 7,149 | 198,412 | \$ 135,671 | | | |
| 380003 | Distr - Steel Services | Jul-09 | 24 | \$ 778 | \$ (43,915) | 2.96% | \$ (1,277) | \$ 46 | \$ 732 | | \$ 191 | \$ 587 | 0.5250 | 308 | 0.0475 | 13 | 0.0428 | 28 | 349 | \$ 238 | | | |
| 383001 | Distr - House Regulator | Jul-09 | 24 | \$ 363,411 | \$ (12,689) | 2.20% | \$ 7,711 | \$ 15,968 | \$ 347,443 | | \$ 89,399 | \$ 274,012 | 0.5250 | 143,856 | 0.0475 | 13,016 | 0.0428 | 5,864 | 162,736 | \$ 111,276 | | | |
| 385001 | Distr - Industrial Meas/Req | Jul-09 | 24 | \$ 18,956 | \$ (217) | 1.99% | \$ 333 | \$ 674 | \$ 16,282 | | \$ 4,171 | \$ 12,785 | 0.5250 | 6,712 | 0.0475 | 607 | 0.0428 | 274 | 7,583 | \$ 5,192 | | | |
| | | | | \$ 1,006,888 | \$ (75,064) | | \$ 19,620 | \$ 43,147 | \$ 863,741 | | \$ 247,694 | \$ 759,193 | | \$ 395,576 | | \$ 36,061 | | \$ 16,247 | \$ 450,884 | \$ 308,309 | | | |
| | | | | | | | | | | | | | | | | | | | | Net Plant for Rate Base | | \$ 983,741 | |
| | | | | | | | | | | | | | | | | | | | | Cumulative Book/Tax Difference | | \$ (655,431) | |
| | | | | | | | | | | | | | | | | | | | | Kansas Effective Tax Rate | | 0.3955 | |
| | | | | | | | | | | | | | | | | | | | | Cumulative Deferred Taxes at 6/30/2011 | | \$ (259,223) | |

Note: \$144,985 adjustment split between 376002, 376003, and 376007 in the same proportion as their unadjusted original cost

Gas System Reliability Surcharge Filing (GSRF) Blanket Work Order Plant Data In Service In 2010
 Page 4 of 4
 Exhibit SAP-3

| FERC Plant Acct (A) | Plant Description (B) | In Srvc Date (C) | No. of Mos In srvc (D) | Original Cost (E) | Less: Retirements (F) | Depr Rate (G) | Annual Depr Exp (H)(I)-P/G | | Calculated A/D Based On In Srvc Date (I) | Net Plant For Rate Base (J) | Unit of Prop Adj for Tax (K) | 263(A) - Unicap Adj for Tax (L) | Net Plant for Accum Tax Depr (M) | 2010 Tax Rate (N) | 2010 Tax Depr (O) | 2011 Tax Depr Rate (P) | 2011 Tax Depr (Q) | 2011 Tax Depr (R) | Accum Tax Depr (S) | Net Tax Basis (U) | (V) | (W) | |
|------------------------|-----------------------------|---------------------|---------------------------|----------------------|--------------------------|------------------|-------------------------------|-----------|---|--------------------------------|---------------------------------|------------------------------------|-------------------------------------|----------------------|----------------------|---------------------------|----------------------|----------------------|-----------------------|--|-----|--------------|--|
| | | | | | | | (H) | (I) | | | | | | | | | | | | | | | |
| 369003 | Trans- Meas & Req Sta Eqp | Jul-10 | 12 | \$ (446) | | 1.57% | \$ (7) | \$ (7) | \$ (439) | | \$ - | \$ (446) | 0.5250 | (234) | 0.0475 | (11) | (245) | \$ (201) | | | | | |
| 371001 | Trans - Other Equipment | Jul-10 | 12 | \$ 3,294 | | 2.33% | \$ 77 | \$ 77 | \$ 3,217 | | \$ 810 | \$ 2,484 | 0.5250 | 1,304 | 0.0475 | 59 | 1,363 | \$ 1,121 | | | | | |
| 376002 | Distr - PE Mains | Jul-10 | 12 | \$ 188,531 | \$ (2,451) | 1.71% | \$ 3,182 | \$ 3,215 | \$ 185,318 | | \$ 46,379 | \$ 142,152 | 0.5250 | 74,830 | 0.0475 | 3,378 | 78,006 | \$ 64,148 | | | | | |
| 376003 | Distr - Steel Mains | Jul-10 | 12 | \$ 630 | \$ (492) | 1.77% | \$ 2 | \$ 11 | \$ 619 | | \$ 155 | \$ 475 | 0.5250 | 249 | 0.0475 | 11 | 260 | \$ 215 | | | | | |
| 380002 | Distr - PE Services | Jul-10 | 12 | \$ 775,971 | \$ (5,712) | 2.28% | \$ 17,562 | \$ 17,643 | \$ 758,328 | | \$ 190,889 | \$ 585,062 | 0.5250 | 307,168 | 0.0475 | 13,898 | 321,064 | \$ 284,018 | | | | | |
| 380003 | Distr - Steel Services | Jul-10 | 12 | \$ 9,958 | \$ (10,525) | 2.96% | \$ (16) | \$ 295 | \$ 9,703 | | \$ 2,460 | \$ 7,538 | 0.5250 | 3,958 | 0.0475 | 179 | 4,137 | \$ 3,401 | | | | | |
| 383001 | Distr - House Regulator | Jul-10 | 12 | \$ 289,670 | \$ (17,896) | 2.20% | \$ 5,980 | \$ 6,355 | \$ 283,315 | | \$ 71,259 | \$ 218,411 | 0.5250 | 114,666 | 0.0475 | 5,187 | 119,853 | \$ 98,558 | | | | | |
| 385001 | Distr - Industrial Meas/Req | Jul-10 | 12 | \$ 6,055 | | 1.99% | \$ 120 | \$ 120 | \$ 5,935 | | \$ 1,490 | \$ 4,565 | 0.5250 | 2,387 | 0.0475 | 108 | 2,505 | \$ 2,060 | | | | | |
| | | | | \$ 1,273,703 | \$ (37,046) | | \$ 26,901 | \$ 27,709 | \$ 1,245,994 | | \$ 313,441 | \$ 980,262 | | \$ 504,138 | | \$ 22,805 | \$ 526,943 | \$ 433,319 | | | | | |
| | | | | | | | | | | | | | | | | | | | | Net Plant for Rate Base | | \$ 1,245,994 | |
| | | | | | | | | | | | | | | | | | | | | Cumulative Book/Tax Difference | | \$ (812,675) | |
| | | | | | | | | | | | | | | | | | | | | Kansas Effective Tax Rate | | 0.3955 | |
| | | | | | | | | | | | | | | | | | | | | Cumulative Deferred Taxes at 6/30/2011 | | \$ (321,413) | |

Note: \$49,895 adjustment split between 376002 and 376003 in the same proportion as their unadjusted original cost

Notes

Column C: Assumes an In-Service date of July 2007 for all blankets as an average.

The engineering in-service date determines when tax depreciation starts. However, due to purchase of assets from Aquila, Inc. by Black Hills on 7/14/2008, all tax depreciation for projects placed in service prior to that date began on 7/14/08. Since the passage of the Energy Tax Incentives Act, natural gas transmission and distribution assets are

Projects with engineering in service date of 7/2009 or later qualify for "Unit of Property" deduction for tax purposes. Deduction is based upon expected 2010 tax return calculation, with Immaterial true-up expected in September 2011 for 2010 projects.

Projects with engineering in service date of 9/1/2010 or later qualify for 100% bonus depreciation deduction for tax purposes until 12/31/2011. Projects with engineering date of 01/01/2010 to 8/31/2010 qualify for 50% bonus depreciation deduction. Tax rates utilized for these assets incorporate this adjustment.

Black Hills Energy
Gas System Reliability Surcharge Filing - June 2011 REVISED

| | <u>JUNE 2011 w/ Blankets</u> | <u>UPDATE MARCH 2010</u> | <u>UPDATE MARCH 2009</u> | <u>UPDATE JANUARY 2008</u> |
|---|----------------------------------|------------------------------|------------------------------|--------------------------------|
| Gas Plant | 9,583,316 | 2,406,658 | 3,564,820 | 2,403,634 |
| Accumulated Depreciation | 289,784 | (17,552) | (8,332) | 39,831 |
| Net Gas Plant | <u>9,293,532</u> | <u>2,424,210</u> | <u>3,573,152</u> | <u>2,363,803</u> |
| ADIT | (2,413,279) | (654,604) | (948,214) | (232,432) |
| Total Rate Base | <u>6,880,253</u> | <u>1,769,606</u> | <u>2,624,938</u> | <u>2,131,371</u> |
| ROR (10.2% ROE) | <u>8.6867%</u> | <u>8.6867%</u> | <u>8.6867%</u> | <u>8.6867%</u> |
| Required Operating Income | 597,668 | 153,720 | 228,020 | 185,146 |
| Operating Income Present Rates-Revised* | <u>(16,218)</u> | <u>(2,518)</u> | <u>(968)</u> | <u>4,321</u> |
| Deficiency | 613,886 | 156,238 | 228,988 | 180,825 |
| Tax Factor | <u>60.45%</u> | <u>60.45%</u> | <u>60.45%</u> | <u>60.45%</u> |
| Total Proposed Rate Adjustment | <u><u>1,015,526</u></u> | <u><u>258,458</u></u> | <u><u>378,806</u></u> | <u><u>299,131</u></u> |

*Calc of Operating Income Present Rates:

| | | | |
|------------------------------------|---------|--------|-----------------|
| Depreciation Adjustment | | | 184,949 |
| Income Taxes on Depr Adj | 184,949 | 39.55% | (73,147) |
| Income Taxes on Adjusted Int Exp** | 241,675 | 39.55% | <u>(95,582)</u> |
| | | | 16,218 |

| | | | |
|------------------------------------|--------|--------|-----------------|
| Depreciation Adjustment | | | 44,834 |
| Income Taxes on Depr Adj | 44,834 | 39.55% | (17,732) |
| Income Taxes on Adjusted Int Exp** | 62,159 | 39.55% | <u>(24,584)</u> |
| | | | 2,518 |

| | | | |
|------------------------------------|--------|--------|-----------------|
| Depreciation Adjustment | | | 61,926 |
| Income Taxes on Depr Adj | 61,926 | 39.55% | (24,492) |
| Income Taxes on Adjusted Int Exp** | 92,203 | 39.55% | <u>(36,466)</u> |
| | | | 968 |

| | | | |
|------------------------------------|--------|--------|-----------------|
| Depreciation Adjustment | | | 41,834 |
| Income Taxes on Depr Adj | 41,834 | 39.55% | (16,545) |
| Income Taxes on Adjusted Int Exp** | 74,866 | 39.55% | <u>(29,610)</u> |
| | | | (4,321) |

**Adjusted Interest Exp Calc:

| | | | | |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
| Change in Rate Base | 6,880,253 | 1,769,606 | 2,624,938 | 2,131,371 |
| Weighted Cost of Capital | 7.1288% | 7.1288% | 7.1288% | 7.1288% |
| Capital % | <u>49.2732%</u> | <u>49.2732%</u> | <u>49.2732%</u> | <u>49.2732%</u> |
| | 241,675 | 62,159 | 92,203 | 74,866 |

CERTIFICATE OF SERVICE

12-BHCG-055-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Staff's Motion to File a Revised Report and Recommendation was served by electronic service and a copy placed in the United States mail, postage prepaid, or hand-delivered this 14th day of September, 2011, to the following:

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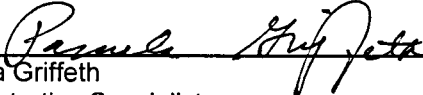
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