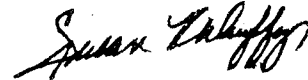


BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

STATE CORPORATION COMMISSION

MAR 31 2010



Docket No. 10-BHCG-639-TAR

In the Matter of the Application of Black Hills/Kansas )  
Gas Utility Company, LLC, d/b/a Black Hills Energy )  
for Approval to Implement Black Hills Energy's Five- )  
Year Energy Efficiency Plan Consisting of Natural )  
Gas Energy Efficiency Programs to Improve Building )  
and Equipment Efficiency and to Educate About )  
Efficient Energy Usage, to Provide for Program Cost )  
Recovery Through a Rider Mechanism, Permit the )  
Implementation of a Revenue Normalization )  
Mechanism to Replace the Weather Normalization )  
Adjustment, a Performance Incentive Mechanism, and )  
Appropriate Accounting Authority to Defer Expenses )  
and Revenues Associated with the Filing )

**APPLICATION**

COMES NOW Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy ("BHE", "Black Hills Energy" or "Applicant") and files this application for approval of the following:

(1) BHE's Five-Year Energy Efficiency Plan containing a portfolio of energy efficiency programs established in conjunction with the orders issued by the Kansas Corporation Commission ("Commission") in Docket No. 08-GIMX-441-GIV ("441 Docket") and 08-GIMX-442-GIV ("442 Docket"), including an education program; (2) cost recovery, including an Energy Efficiency Cost Recovery ("EECR") rider mechanism, determined by the Commission to be the best cost recovery approach to recover the utility's energy efficiency program costs; (3) the establishment of a revenue decoupling mechanism referred to herein as a revenue normalization mechanism ("RNM") within the EECR to recognize changes in customer consumption as identified by the Commission in its Final Order in Docket 441, and which would replace BHE's current weather normalization adjustment; (4) a performance incentive mechanism to allow for the sharing of the savings generated by the energy efficiency programs between BHE's customers and its shareholders; and (5) specific Commission

authority to defer all program costs and accrued revenue pursuant to the proposed EECR and RNM. This request is necessary to properly account for the items requested to be recovered from customers as further described within this application and testimony. In support of the application, BHE states:

**I. INTRODUCTION**

1. Applicant is a natural gas public utility operating in the state of Kansas pursuant to certificates of convenience and necessity issued by the Commission. Applicant's principal place of business within the state of Kansas is located at 110 East 9<sup>th</sup> Street, Lawrence, Kansas 66044.

2. The names, addresses and phone numbers of the persons authorized to received notices and communications with respect to this Application on behalf of BHE are as follows:

Steven M. Jurek  
Vice President, Regulatory Services  
Black Hills Utility Holdings, Inc.  
Black Hills Energy  
1815 Capitol Avenue  
Omaha, Nebraska 68102

Margaret A. McGill  
Regulatory Manager  
Black Hills Utility Holdings, Inc.  
Black Hills Energy  
1815 Capitol Avenue  
Omaha, Nebraska 68102

Matthew E. Daunis  
Director, Energy Efficiency Programs  
Black Hills Utility Holdings, Inc.  
Black Hills Energy  
110 E. 9<sup>th</sup> Street  
Lawrence, Kansas 66044

James G. Flaherty  
Anderson & Byrd, LLP  
216 S. Hickory, P. O. Box 17  
Ottawa, Kansas 66067

3. The Commission indicated its preference for working with utilities in a collaborative

way to permit voluntary efforts to implement energy efficiency programs consistent with the objectives and goals set forth in the 442 Docket. The Commission stressed the need to pursue energy efficiency in a comprehensive manner, while making cost-effective expenditures for energy efficiency. The comprehensive approach stressed in the 442 Docket embraced the "total home" or building concept using building science principles to achieve energy efficiency. The Commission also indicated a need to provide an array of energy efficiency programs that would benefit all customer classes, including low-income customers. The Commission stressed a need for customer education and new rate design proposals to provide customers a better understanding of the cost of providing energy.

4. The Commission addressed the "throughput incentive," which ties revenue and income to the volume of sales made by a utility to its customers, and indicated a need to avoid the loss of margins that would result from implementing energy efficiency and conservation programs. In this regard, the Commission discussed the need for a utility to maintain revenue stability to recover fixed costs and identified decoupling - the disassociation of cost recovery and customer usage -- as a remedy for meeting revenue shortfalls. As part of an energy efficiency program, the Commission acknowledged its willingness to consider decoupling proposals from natural gas utilities. In conjunction with the development of energy efficiency programs, the Commission recognized in the 441 Docket a need for utilities to be able to recover energy efficiency program costs on a fairly contemporaneous basis through the use of a rider recovery mechanism. The Commission announced it expected a utility initiating energy efficiency programs to include a proposal for a rider in its application seeking approval of such programs.

5. On April 13, 2009, the Commission issued an order in the 442 Docket to establish guidelines and procedures for reviewing energy efficiency programs. In the order, the Commission adopted the use of the California Standard Practice Manual and the five benefit-costs tests for

evaluating programs. The Commission determined certain values and components to be used in the test formulas and place reliance on the California Database for Energy Efficient Resources ("DEER") source document for measurement values in the absence of Kansas baseline data. The Commission also addressed educational programs and the objective of information customers about energy efficiency. According to the Commission, educational programs do not need to meet any particular benefit-cost test. The Commission also indicated it would consider the approval of performance incentive mechanisms in conjunction with the implementation of a utility's energy efficiency program.

## **II. THE PURPOSE AND SUMMARY OF THE CONTENT OF THIS FILING**

### **A. THE PURPOSE OF THIS FILING**

6. Based on the legislative and regulatory development outlined above, BHE has elected to propose energy efficiency and conservation programs together with the EECR to recover the cost of its proposed energy efficiency and conservation programs and the RNM to adjust revenues to match the expected weather-normalized revenues from BHE's Commission-approved level of revenues. The purpose of this filing is to establish a portfolio of basic natural gas energy efficiency programs.

7. To implement the programs, BHE is requesting recovery of its incremental program costs through the EECR. BHE has prepared a budget for the costs anticipated to be incurred to commence and operate its programs. These costs include personnel and equipment, education and marketing initiatives, incentives for improving energy efficiency in home and building structures and internet web page developments.

8. As a necessary component of this application, BHE is also seeking the RNM, a decoupling mechanism to permit it to align its financial interests with customer objectives for reducing energy consumption. Currently, BHE recovers a portion of its costs through volumetric rates. The ability to recover its revenue requirement is therefore dependent on the amount of natural gas being

consumed by its customers. To create the necessary incentive for reducing consumption through energy conservation measures, BHE must have the ability to collect sufficient revenue to reimburse it for the fixed costs it incurs for the delivery of natural gas. This may be accomplished through the proposed RNM decoupling mechanism. The RNM will permit BHE to recognize and subsequently collect the revenue shortfall between the amount of revenue it was authorized to collect in its most recent rate case in Docket No. 07-AQLG-431-RTS, plus the cumulative authorized Gas System Reliability Surcharge ("GSRS") revenue for the residential and other tariff classes in comparison with revenues being currently earned from these respective classes. The proposed RNM will replace the Weather Normalization Adjustment ("WNA"), and thus, actual revenue will include that earned through the WNA mechanism.

9. BHE is proposing a modest performance incentive mechanism for savings associated with the residential and low income programs. The Commission indicated it would consider approving such an incentive mechanism. Unlike traditional utility investments, energy efficiency program expenditures do not earn a return for shareholders. Thus, the performance incentive mechanism which allows for the sharing of the cost savings generated by the energy efficiency programs is being requested by BHE in this filing.

10. BHE is also seeking accounting authority to permit it to recognize revenues on a monthly basis for the RNM decoupling mechanism and to defer and recover program costs. The accounting treatment for the revenues associated with the RNM decoupling mechanism and deferral of recovery of program costs must be in accordance with Generally Accepted Principles ("GAAP"), ACS 980-10, which is the authoritative guidance for entities with rate regulated activities. Each year, the deferred program costs and recognized revenues will be calculated to determine the adjustments under the EECR and a surcharge amount will be established for collection from the residential and

other tariff classes. The Commission Staff will be given the opportunity to review the proposed surcharge amounts as part of a regulatory filing. This approach would be consistent with Docket 441 and will allow for contemporaneous recovery of costs incurred for the energy efficiency programs and decoupling revenue earned in the prior period.

11. In support of the application, prefiled testimony is submitted as attachments to this filing. Matthew E. Daunis, Director of Energy Efficiency Programs for BHE, is providing testimony to support the overall commitment BHE is making to promote energy efficiency through the basic natural gas energy efficiency programs and is providing testimony concerning the proposed natural gas energy efficiency programs, participant levels, program costs and benefit-cost analysis through the sponsoring of BHE's Five-Year Energy Efficiency Plan which is attached to this Application as Exhibit 1 and is incorporated herein by reference. He will also identify certain resources BHE will employ to implement and maintain the programs. Dr. John Chamberlain, a regulatory and energy efficiency consulting expert, and principal with the Cadmus Group, is providing testimony to support BHE's request to implement the RNM decoupling mechanism and the performance incentive mechanism.

12. In conjunction with this application, BHE has conferred with the Commission's Utilities Division, and the Citizens' Utility Ratepayer Board.

**B. CONTENT OF THE FILING**

**1. PROGRAM PORTFOLIO OVERVIEW**

13. BHE energy-efficiency portfolio is composed of three broad categories: residential programs, nonresidential programs, and special programs. Each of these categories is designed to address the needs of various customer types. The residential program category is further separated into the following subcategories: space and water heating programs. envelope measure retrofits, new

construction, and an audit program. The nonresidential programs are: prescriptive and custom rebate programs, and the small commercial audit program. The special programs category consists of the low-income programs and school-based energy education.

## **2. PROGRAM BUDGETS, SAVINGS AND COST-EFFECTIVENESS**

14. Developing this plan has provided BHE with an opportunity to review its program offerings in other states, and explore program improvements and innovative new offerings. The resulting overall budget for BHE's energy efficiency portfolio is \$1,473,000 in year 1. Table ES.1 contained in BHE's five-year plan which is Exhibit 1 to this Application presents each year's budgets for individual programs, including \$250,000 for general across-program training, marketing, software and administration. The full five-year budget is contained in Appendix D to Exhibit 1 attached to this Application.

15. The budget reflects BHE's commitment toward achieving the greatest amount of cost-effective, energy efficiency savings feasible over the planning horizon, with an equitable balance of the energy efficiency costs between participants and ratepayers.

16. As these programs are new, budgets will ramp up in later years to cover greater participation. Costs also are assumed to inflate at 2.38% per year. Annual budgets by category are provided in Table ES.2 included in Exhibit 1 to the Application. Marketing budgets are front-loaded to heavily promote the programs in years 1 through 3, thus the entire portfolio budget actually decreases slightly in years 4 and 5. Analyzing program cost-effectiveness is an important part of the planning process, both in terms of meeting regulatory requirements and in selecting and designing programs. Table ES.3, Table ES.4 and Table ES.5 included in Exhibit 1 to the Application show (respectively) residential, nonresidential and special programs first-year therm savings and cost-effectiveness results for the total resource cost ("TRC") for the first five years of program activity.

Programs without claimed savings are not shown.

### **3. PLAN CONTENTS**

17. BHE's Five-Year Energy Efficiency Plan (Exhibit 1 to the Application) contains an Executive Summary and the following chapters and appendices:

(a) Chapter 1 explains the plan development process and discusses various components used in creating the energy-efficiency portfolio.

(b) Chapter 2 reviews underlying assumptions and data inputs guiding the cost-effectiveness analysis.

(c) Chapter 3 describes the overall program development strategy.

(d) Chapters 4, 5 and 6 detail the residential, nonresidential and special programs (respectively) forming the overall energy-efficiency portfolio. These chapters contain general discussions of topics relevant to the programs as well as detailed descriptions of individual programs, including budgets, participation, measures, impacts, and where required, cost-effectiveness results.

(e) Chapter 7 contains rate impacts across the residential, general service commercial/industrial, and non-general service commercial/industrial customers.

(f) Chapter 8 provides conclusions and a request for plan approval.

(g) The Plan also concludes with the following appendices, which provide the necessary data to complete the filing:

(i) Energy-Efficiency Measures;

(ii) 2005-2006 Test Year Sales and Customer Data;

(iii) Rate Tariffs;

(iv) Detailed Program Benefit-Cost Analysis;



- (v) Revenue Recovery Methodology; and
- (vi) Proposed Tariffs.

#### **4. RESIDENTIAL PROGRAMS**

##### **a. R-1 RESIDENTIAL AUDIT PROGRAM**

18. PROGRAM DESCRIPTION. The Residential Audit Program is composed of two components: a free audit and a Home Performance with ENERGY STAR (HPwES) audit. The HPwES program is slated to start in year 2. Both audits aim to provide customers with recommendations about ways they can reduce energy consumption in their homes. Audit recommendations may include: suggested behavioral changes; suggestions on implementing low-cost and easy-to-install energy-saving equipment; and suggestions on repairing, upgrading, or replacing larger, relative expensive equipment or systems.

19. The R-1 Residential Audit Program is more fully described in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 16-19.

##### **b. RESIDENTIAL SPACE AND WATER HEATING PROGRAM**

20. The Residential Space and Water Heating Program includes several program components:

- R-2.1 Furnace and Boiler Replacement and Maintenance Services
- R-2.2 Water Heater Replacement
- R-2.3 Innovative Space and Water Heating Technologies

While program components under the Residential Space and Water Heating Program umbrella are somewhat independent of the others, they have common elements, which in many cases will require coordination with the same set of trade allies, and are supported by a similar programmatic infrastructure. Cost-effectiveness of the overall Residential Space and Water Heating Program

follows a discussion of individual program components.

21. PROGRAM SAVINGS GOAL. Projected savings for this program are 7,364 DTh in year 1, increasing to 13,338 DTh in year 5.

**c. R-2.1 FURNACE AND BOILER REPLACEMENT AND MAINTENANCE SERVICES**

22. PROGRAM DESCRIPTION. The Residential Furnace and Boiler Replacement and Maintenance Services program will provide incentives to customers who upgrade their existing furnaces and boilers to higher-efficiency units. Incentives are also available for performing prescribed maintenance on gas furnaces and boilers. All residential customers living in structures with one to four units, including manufactured homes, are eligible to participate in the program.

23. R-2.1 Furnace and Boiler Replacement and Maintenance Services is more fully described in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 20-23.

**d. R-2.2 WATER HEATER REPLACEMENT**

24. PROGRAM DESCRIPTION. The Water Heater Replacement program offers customers incentives to upgrade to higher efficiency levels when replacing water-heating equipment. As with the Furnace and Boiler Replacement and Maintenance Services program, incentives are structured to encourage customers to install the highest efficiency level available. Given the limited availability of higher tier equipment at present, it is anticipated most participants will select equipment in the first efficiency tier. However, given current Federal ENERGY STAR water heater standards, more extensive contractor outreach and education efforts, and higher incentive levels, higher-efficiency water heaters are expected to become more available and participation at higher-efficiency levels will likely increase.

25. R-2.2 Water Heater Replacement is more fully described in BHE's Five-Year Energy

Efficiency Plan, Exhibit 1 hereto, at pages 23-25.

**e. R-2.3 INNOVATIVE SPACE AND WATER HEATING TECHNOLOGIES**

26. PROGRAM DESCRIPTION. The Residential Innovative Space and Water Heating Technologies program has two purposes: encouraging adoption of more recent-to-market, energy-efficient technologies; and ensuring BHE's energy-efficiency portfolio includes savings opportunities through less common space and water heating applications. Program measures address both space and water heating end uses.

27. R-2.3 Innovative Space and Water Heating Technologies is more fully described in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 25-28.

**f. R-3 RESIDENTIAL ENVELOPE MEASURES RETROFIT PROGRAM**

28. PROGRAM DESCRIPTION. The Residential Envelope Measures Retrofit program provides incentives to customers improving their homes' efficiency through installing insulation and other thermal envelope measures. The program covers a wide range of measures, including: ceiling, wall, and foundation insulation and infiltration measures (e.g., caulking, weatherstripping). Incentive levels are set as a percentage of the total cost, and are capped at a specified value that varies by measure.

29. The R-3 Residential Envelope Measures Retrofit Program is more fully described in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 28-13.

**g. R-4 RESIDENTIAL NEW CONSTRUCTION PROGRAM**

30. PROGRAM DESCRIPTION. The Residential New Construction Program is designed to promote construction of energy-efficient single- and multifamily homes by providing new home builders with incentives to install high-efficiency, natural gas-fired space and water heating equipment

and more robust thermal envelope measures. The Residential New Construction program, using a comprehensive approach to overall efficiency, is designed to minimize lost energy savings opportunities in each structure. The program offers flexibility by allowing each builder to participate through: a prescriptive path, in which the builder must install a specified set of energy-efficiency measures; or a performance path, in which the builder must meet specified energy performance targets. Under either path, qualifying homes may be eligible to receive ENERGY STAR new home labels.

31. The R-4 Residential New Construction Program is more fully described in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 31-35.

## **5. NONRESIDENTIAL PROGRAMS**

### **a. NR-1 SMALL COMMERCIAL AUDITS**

32. PROGRAM DESCRIPTION. The Small Commercial Audits Program will promote efficiency for small business customers, including on-site analysis to identify energy-efficiency opportunities. Targeted customers are eligible for a comprehensive energy audit performed by a professional energy auditor. The program will utilize software to assess and develop recommendations for the following energy-use categories:

- Heating system: controls, efficiency, and operating characteristics
- Domestic hot water use
- Thermal envelope factors
- Commercial cooking

33. NR-1 Small Commercial Audits is more fully described in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 36-38.

### **b. NR-2 NONRESIDENTIAL PRESCRIPTIVE REBATES**

34. PROGRAM DESCRIPTION. The Nonresidential Prescriptive Rebate Program is designed

to provide a full range of energy-efficiency options for space and water heating, and for commercial cooking equipment, again primarily focusing on the small business sector. This program offers cash rebates to nonresidential customers purchasing high-efficiency gas equipment and incentives to dealers selling such equipment.

35. NR-2 Nonresidential Prescriptive Rebates is more fully described in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 38-41.

**c. NR-3 NONRESIDENTIAL CUSTOM REBATES**

36. PROGRAM DESCRIPTION. The Nonresidential Custom Rebates Program buys down energy-efficient upgrades to a two-year payback, or up to one-half the incremental cost of the equipment, whichever is less. Specifically, the Custom Rebate Program provides incentives for installing energy-efficient natural gas equipment not specified in the Prescriptive Rebate Program. Generally, this includes measures that widely vary in cost, depending on a facility's specifics, and for large equipment, such as boilers > 300 kBTUh. Because usually the program requires expert analyses to determine potential energy savings, base case, incremental cost, and other project parameters, funding is provided to support this analysis.

37. NR-3 Nonresidential Custom Rebates is more fully described in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 42-44.

**d. NR-5 INDUSTRIAL SECTOR OUTREACH**

38. Traditionally, the industrial sector has been underserved by utility-sponsored, energy-efficiency programs. To help increase awareness and provide training and education for industrial customers, BHE intends to partner with the Department of Energy Industrial Technologies Program (DOE-ITP). The DOE-ITP offers several support layers for industrial energy-efficiency programs:

- Industrial Assessment Center: offers free site assessments for small- to medium-sized manufacturing facilities (with sales less than \$100 million and energy costs from \$100,000 to \$2.5 million). Currently, the nearest industrial assessment center to Black Hills Energy's Kansas territory is at Oklahoma State University in Stillwater, Oklahoma.
- Save Energy Now: process-specific assessments at larger facilities. Specifically for Black Hills Energy customers, options include process heating and steam systems assessments. Utility account reps are encouraged to work with facility managers before and after assessment.
- Training: BestPractices training sessions on Steam Systems and Process Heating. The DOE-ITP offers instructors and material support for an End User Training one-day workshop or a more advanced Specialist Qualification 2½-day workshop.
- Co-branding of flyers: The DOE-ITP will create training or other informational flyers and technical information sheets, co-branded with the utility. In addition to increasing customer awareness, this will provide positive public relations between the utility and the industrial sector.

The Industrial Sector Outreach program is more fully discussed in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 44-45.

## **6. SPECIAL PROGRAMS**

### **a. S-1 LOW INCOME PROGRAMS**

39. BHE will offer energy-efficiency programs targeted to the most vulnerable energy customers in their service area, seeking to provide a range of energy-efficiency services to low-income customers:

- S-1.1 Weatherization;
- S-1.2 Affordable Housing (New Construction); and
- S-1.3 Weatherization Teams.

40. Projected savings from all low-income programs are: 316 DTh in year 1, increasing to 1,685 DTh in year 5.

**b. S-1.1 WEATHERIZATION**

41. PROGRAM DESCRIPTION. The program will provide funding to local organizations to improve weatherization in homes or apartments occupied by low-income customers, utilizing non-profit and community action agencies delivering weatherization in BHE's service territory. Part of the funding will be earmarked for agencies to encourage upgrades to high-efficiency space and water heating equipment (i.e., AFUE = 94% or more gas furnaces, and EF=0.67 or more gas water heaters). Given the overlap with American Reinvestment and Recovery Act funds, this program will not be offered until year 2 (and continuing into later years).

42. Overall program funding is shown in Table 41, page 47, of Exhibit 1 attached hereto. This program will begin in year 2.

**c. S-1.2 AFFORDABLE HOUSING**

43. PROGRAM DESCRIPTION. BHE offers increased incentives for energy-efficient technologies and building envelope measures in homes built through non-profit organizations, such as Habitat for Humanity, Community Housing Initiatives, and Community Development Corporations. Similar to the Residential New Construction program, BHE will provide incentives for homes qualifying for the ENERGY STAR label, under either the performance (Home Energy Rating) or prescriptive (Builder Option Package) options. Affordable homes meeting the ENERGY STAR standard will receive a \$1,500 incentive to cover the increased cost of high-efficiency equipment and thermal envelope upgrades. Additionally, BHE will provide a \$100 incentive for ENERGY STAR horizontal clothes washers in homes where high-efficiency gas dryers have been installed.

44. The program's budget is shown in Table 42, page 47, of Exhibit 1 attached hereto.

**d. S-1.3 WEATHERIZATION TEAMS**

45. PROGRAM DESCRIPTION. BHE's Weatherization Teams effort brings together

volunteers from company staff and the community to offer simple weatherization measures and services to low-income households across BHE's service territory. BHE provides a complete energy audit of each selected home prior to the volunteer work day. The audit identifies simple infiltration reduction opportunities, low-cost energy efficiency retrofits, and minor repairs to increase selected homes' energy efficiency. These issues may include:

- Caulking around doors and windows
- Weather stripping around door and windows
- Installing of door sweep(s)
- Installing plastic window film on the interior and exterior
- Filling/sealing holes in sidewalls and foundation
- Hot water heater blankets
- Hot water pipe insulation
- Furnace filter replacements
- High-efficiency showerheads
- Programmable thermostats
- Kitchen and bathroom high-efficiency faucet aerators

Weatherization teams may also perform simple health and safety improvements in homes.

46. The program's budget is shown in Table 43, page 48, of Exhibit 1 attached hereto.

**e. S-2 SCHOOL-BASED ENERGY EDUCATION**

47. PROGRAM DESCRIPTION. The School-Based Energy Education Program seeks long-term energy savings via enhanced energy-efficiency awareness among youth in BHE's service territory. The program centers on the idea that energy-efficiency awareness can be greatly enhanced among the young, who have less formulated ideas about energy consumption and are, therefore, more



easily able to develop a conservative mindset regarding home energy use. Engendering these subtle-yet-significant behavioral changes primarily will be conducted through development of a specific curriculum to complement existing natural science-based education. The program will include a kit of low-cost measures to help ideas and concepts resonate with participating students. The curriculum and kit will provide hands-on and educational methods for students to evaluate impacts of energy-efficient retrofits and behavioral changes. For example, a flow meter will accompany the low-flow showerhead, permitting students to quantify their use of water before and after installation. Such comparisons will provide a concrete example of how their actions save energy and help the environment.

48. S-2 School-Based Energy Education is more fully described in BHE's Five-Year Energy Efficiency Plan, Exhibit 1 hereto, at pages 49-51.

## **7. ENERGY-EFFICIENCY COST RECOVERY RIDER (EECR)**

49. In conjunction with the provision of the energy efficiency programs, BHE is proposing to recover program costs on a contemporaneous basis through its proposed EECR. Based on the most recent approved test year data, weather normalized residential consumption after accounting for year 1 program savings is 730 therms per customer. BHE is proposing a year 1 EECR of \$0.0178 per therm for residential customers, or about \$13.00 for the first year for the average customer. The year 1 EECR for the non-residential customer is proposed to be \$0.0087 per therm or about \$27 for the first year for the average non-residential customer. The chapter discussing BHE's energy-efficiency cost recovery is set forth in Exhibit 1 attached hereto, at pages 52-54.

## **8. BHE'S PROPOSED REVENUE NORMALIZATION MECHANISM (RNM)**

50. The proposed RNM is intended to adjust the Company's revenues to match the

expected weather-normalized revenues associated with the Company's approved revenue level. The RNM adjustment will be incorporated into the EECR tariff, and will account for changes in usage per customer and changes in numbers of customers. Actual revenues collected will be compared to revenues approved in the most recent base rate proceeding, then will be adjusted for changes in the number of customers to determine the amount of over- or under-collection. This amount will then be converted to a rate per therm, and added to or subtracted from the next period's billings. In actual implementation, there will be a two or three month lag to allow for calculation of the under/over collection and the per-therm adjustment.

51. Calculation of the RNM adjustment to Black Hills Energy's distribution rates will be developed separately for each customer class, and will work as follows:

(a) Data will be extracted from Black Hills Energy's customer billing system. These include the number of customers, total therms, therms per customer, non-gas commodity revenues, and non-gas commodity revenue per customer.

(b) The approved test-year, non-gas revenue per customer will be applied to the number of actual customers to yield the approved revenue over the historical period.

(c) The difference between approved revenue and actual revenue will be amount collected or refunded through the RNM.

(d) The amount to be collected or refunded through the RNM will be converted to a per therm charge based on the forecast of base revenues for the next period.

(e) A difference between the calculated RNM adjustment and RNM actually collected will likely occur due to differences between forecasted therm sales used to develop the \$/therm adjustment and actual therm sales. This difference will be booked to a balancing account. A true-up will occur semi-annually, at the same time as the EECR balancing account

true-up, to convert the balance remaining in the RNM balancing account to a \$/therm credit or surcharge, which will be collected as part of the RNM for the next period.

52. Table 52, page 55, of Exhibit 1 attached hereto, shows the average annual rate RNM impacts over the first year of BHE's energy-efficiency program plan.

## **9. PERFORMANCE INCENTIVE MECHANISM**

53. BHE is also requesting approval of a shared savings performance incentive mechanism to create a balance by allowing shareholders to benefit from the investment in energy efficiency programs by sharing a small portion of the savings generated by the programs with its customers. Dr. Chamberlain describes BHE's proposed performance incentive mechanism in his prefiled testimony accompanying this Application and incorporated herein by reference.

## **10. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

52. BHE is requesting expressed accounting authority to permit it to defer monthly program costs and recognize monthly RNM decoupling revenue consistent with GAAP. This would allow BHE to account for actual program costs and RNM decoupling revenue used to calculate the recovery surcharge. At the time of its semi-annual filing, the program cost deferred and RNM decoupling revenue recognized through the period will be included in the calculation of the surcharge and billed to applicable customers. With each filing, the surcharge would be reconciled to balance with the amount of revenue to cover program costs and RNM decoupling revenues.

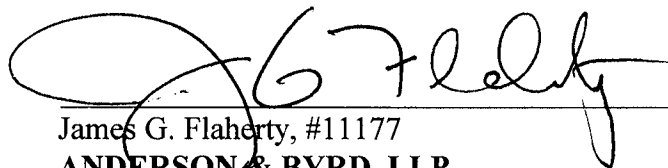
## **11. KCC REPORTING**

53. Consistent with Docket 442, BHE proposes to make semi-annual interim reports for its energy efficiency programs. BHE will report participation levels and energy savings, together with comparisons to the expected goals.

### **III. CONCLUSION**

54. This application presents BHE's proposal to implement a comprehensive set of the energy efficiency programs, an education program and a series of programs designed to reduce natural gas and energy consumption. These programs address the Energy Efficiency and Conservation goals of the Commission in Docket No. 08-GIMX-442-GIV and the cost recovery components of Docket No. 08-GIMX-441-GIV, including the need to address the "throughput incentive" for natural gas utilities through full decoupling and to address the incentive to promote energy efficiency through approval of a performance incentive mechanism. The application aligns the interests of BHE's customers in having energy efficiency programs with the shareholders' need to maintain stabilized revenues with reduced consumption. BHE is eager to move forward with its Five-Year Energy Efficiency Plan and is hopeful its application will be approved in all respects.

WHEREFORE, BHE prays its application be granted and for such further relief as the Commission deems appropriate.



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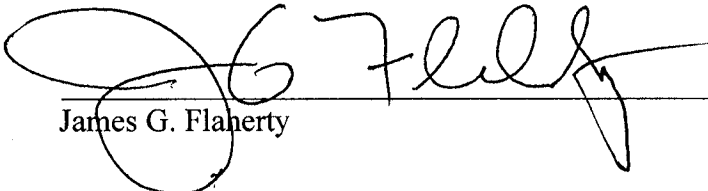
Attorneys for Black Hills/Kansas Gas Utility Company,  
LLC, d/b/a Black Hills Energy

**VERIFICATION**

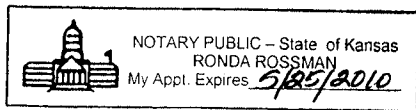
STATE OF KANSAS            )  
  )ss:  
COUNTY OF FRANKLIN    )

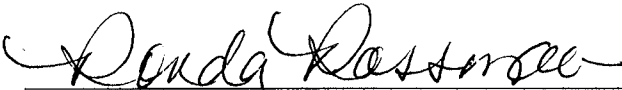
James G. Flaherty, of lawful age, being first duly sworn on oath, states:

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.

  
\_\_\_\_\_  
James G. Flaherty

SUBSCRIBED AND SWORN to before me this 31<sup>st</sup> day of March, 2010.



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

Appointment/Commission Expires: