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**Senate Utilities Committee  
SB 279 - Support  
February 1, 2018**

Thank you Chairman Olson and members of the committee for the opportunity to provide comments today on SB 279 which updates the Gas Safety and Reliability Policy Act. On behalf of Black Hills Energy, a natural gas utility proudly serving approximately 113,000 customers in 65 Kansas communities, we are here today to testify in support of this legislation. Black Hills believes SB 279 will provide regulatory certainty in accelerating the replacement of aging infrastructure and the timely recovery of those costs while keeping customer impacts in mind.

**Commitment to Safety**

At Black Hills Energy our number one priority is safety. This encompasses the safety of our customers, employees and all people in Kansas. Safety is the first consideration as we prepare capital budgets and prioritize replacement of aged and obsolete assets.

Black Hills field supervisors propose replacement projects from the grass roots level based on leak history, pipe vintage and other factors; then every project is prioritized using a point system. The result is a worst-first replacement schedule that is refreshed continually.

The integrity of our natural gas pipeline system is paramount for safety and reliability. Our pipeline system is currently safe and reliable, but many portions are aging and nearing the end of their useful life.

**GSRS is a Proven and Effective Tool to Enhance Safety**

The passage of the *Gas Safety and Reliability Policy Act* in 2006 was a meaningful development for natural gas utilities to recover the costs of pipeline safety investments and government mandated projects such as road relocations through the Gas System Reliability Surcharge (GSRS). Black Hills has been replacing pipe and other assets that are eligible for recovery under the GSRS statute at or near the maximum level allowed under the GSRS residential cap, spending over \$46 million since 2007. Over the last decade system leaks have declined, demonstrating these investments have made a positive effect on safety.

The regulatory process for GSRS filings is efficient, straightforward and predictable. It is transparent and thoroughly reviewed by Kansas Corporation Commission (KCC) staff and the consumer advocate.

**Addressing Aging Infrastructure**

Last week Black Hills submitted a preliminary plan to the KCC for accelerating the replacement of aging infrastructure in accordance with the "343 Docket." Final plans are due April 24, and Black Hills will begin implementation by midyear. A copy of the filing is attached and a few highlights listed below:

- Black Hills proposes a systematic accelerated pipe replacement of all mains, service lines and yard lines made of obsolete materials in 17 years through two phases. This includes:
- A seven-year Phase 1 plan to eliminate all bare steel mains, bare steel service lines, and bare steel yard lines in Class 3 or urban locations. This will result in the replacement of approximately 139 miles of bare steel main, 22,217 bare steel yard lines, and 6,725 bare steel service lines at a total cost of approximately \$79 million.
- A ten-year Phase 2 plan will eliminate all remaining obsolete pipe in Kansas, including all remaining bare steel mains, bare steel service lines, and bare steel yard lines, plus all remaining obsolete pipe comprised of Aduyl-A and PVC materials throughout all of Black Hills' service territory in Kansas. This phase will commence at the conclusion of Phase 1 and the total additional cost is expected to be \$138.6 million.

### **Adapting GSRS for Future Needs**

The proposed changes in SB 279 are necessary to allow Black Hills to recover costs from eligible system infrastructure investments which are being significantly increased above the \$8.3 million level, the current cap for Black Hills. The changes update the static residential customer cap which is now 12-years old and excluded any type of adjustment for inflation or proactive investment.

The proposed changes in SB 279 will allow Black Hills to continue to delay costly and time consuming rate cases. Thanks in part to the GSRS mechanism, Black Hills has only filed two general rate cases to increase its base rates in the past 11 years (2007 & 2014).

It is Black Hills understanding that CURB has proposed reducing the 60 month availability of the rule to 48 months. This change would require our estimated 2021 rate case to be moved up to 2019. To address this unforeseen consequence, Black Hills proposed to CURB that the bill language be modified to allow a utility to continue utilizing the GSRS mechanism beyond four years if the surcharge revenue would postpone a rate case. We will continue to work with CURB on a mutually agreeable solution.

### **Natural Gas is a Strong Value for Our Customers**

Domestically produced, abundant natural gas remains a strong value for our customer's energy needs. In 2017, the typical residential customer on our system paid an average monthly bill of \$59.14 – meaning they can heat their homes, have hot water, and cook meals for less than \$2 a day.

With the increase in domestic natural gas production, the cost of natural gas has dropped considerably compared to 2006. The lower cost of gas combined with prudent management of our utility, has allowed those same customers to pay 20 – 25% less today than they did in 2006 when GSRS was originally approved by the Kansas Legislature and signed into law. Additionally, expected savings from the 2017 tax reform makes today an ideal time for enhancements to the GSRS mechanism.

### **Moving Forward**

GSRS is a proven mechanism that has worked well since its inception. Unfortunately, it did not include any type of inflationary cost adjustment or proactive contingency. GSRS is the right tool to help delay rate cases which benefits everyone. Thank you for the opportunity to provide comments today on SB 279. I am pleased to answer questions at the appropriate time.