

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF)
BLACK HILLS ENERGY, A DIVISION OF)
CHEYENNE LIGHT, FUEL AND POWER)
COMPANY FOR AN ACCOUNTING ORDER TO)
ESTABLISH A REGULATORY ASSET FOR)
TRANSITION COSTS)

DOCKET NO. 30003-67-GA-16
RECORD NO. 14320

PRE-FILED DIRECT TESTIMONY OF

Denise Kay Parrish

On Behalf of the Office of Consumer Advocate

Testimony Filed: September 2, 2016
Hearing Begins: November 10, 2016

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

2 A. My name is Denise Kay Parrish and my business address is 2515 Warren Avenue,
3 Suite 304, Cheyenne, Wyoming 82002.

4
5 **Q. WHAT IS YOUR OCCUPATION?**

6 A. I am currently the Deputy Administrator of the Wyoming Office of Consumer
7 Advocate (OCA), an independent division of the Wyoming Public Service
8 Commission (Commission). In this position, I review or provide input into the
9 recommendations made by the OCA. I review utility applications filed with the
10 Wyoming Public Service Commission and provide advice to the Administrator
11 regarding the involvement the OCA should have, if any, in the various cases. I
12 analyze requests of regulated utilities and provide recommendations to the
13 Commission relative to various utility matters, including revenue requirements, tariff
14 language, competitive issues, rules and regulations, and other items. I perform
15 special studies, as well as provide information and research to customers, the
16 legislature, the OCA Administrator, and others. I do other assignments and tasks, as
17 needed and as assigned by the OCA Administrator.

18
19 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

20 A. In 1976, I graduated from Michigan State University with a Bachelor of Arts degree
21 in Accounting. I have spent thirty nine years working in the area of public utility
22 regulation, having been on the staff of four state utility regulatory commissions and
23 two consumer advocate entities. More than twenty four of these years have been
24 spent at the Wyoming Public Service Commission; more than eleven of those years
25 were with the Rates and Pricing Section (now part of the technical advisory staff). I
26 have been a member of the Office of Consumer Advocate since May 2003. I have
27 taken classes related to various aspects of public utility regulation, including income
28 taxes, regulatory accounting, depreciation rates, cost-of-service, rate design, revenue
29 requirements, separations and allocations, and other specialized topics. I have taught
30 classes on an assortment of regulatory topics including accounting standards, general

1 ratemaking principles, affiliate transactions, regulatory accounting, financial
2 reporting, income taxes and other specialized topics to regulatory professionals.

3
4 Since 2002, I have been a member of the program faculty at the Michigan State
5 University Institute of Public Utilities. I have been an instructor and participant in
6 numerous international and domestic seminars, conferences and meetings involving
7 utility regulators.

8
9 I am a former chair of the National Association of Regulatory Utility
10 Commissioners' (NARUC) Staff Subcommittee on Accounting and Finance. I am a
11 former chair of the NARUC Staff Subcommittee on International Relations. I am also
12 a member of the National Association of State Utility Consumer Advocates'
13 (NASUCA) Tax and Accounting Committee.

14
15 **Q. DO YOU HAVE EXPERIENCE AS AN EXPERT WITNESS?**

16 A. Yes. I have presented testimony before regulatory bodies in approximately 200
17 cases. I have testified before the Michigan Public Service Commission, the Colorado
18 Public Utilities Commission, the Arizona Corporations Commission, the Wyoming
19 Public Service Commission, the Wyoming Legislature Joint Corporations
20 Committee, the Federal Energy Regulatory Commission, and the Federal-State Joint
21 Board on Universal Service. I have testified in telecommunications, water,
22 wastewater, electric, and natural gas cases. The subjects upon which I have testified
23 include revenue requirements, rate design, cost of capital, nuclear decommissioning,
24 accounting deferrals, adjustment mechanisms, income taxes, capital recovery,
25 universal service funding, and other specialized topics.

26
27 **Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?**

28 A. As a member of the Office of Consumer Advocate, I represent the interests of
29 Wyoming citizens and all classes of utility customers in this public utility matter, as
30 required by W.S. § 37-2-401. It is neither my intent nor my charge to represent the
31 position of any individual, group, municipality, or corporation.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to respond to the request of Black Hills Energy, A
3 Division of Cheyenne Light, Fuel and Power Company's (Northeast Black Hills
4 Energy's) request for the Commission to issue an accounting order granting the
5 Applicant authority to establish a regulatory asset. The requested regulatory asset
6 would be comprised of costs associated with integration activities related to
7 Cheyenne Light, Fuel and Power Company's purchase of the assets of MGTC, Inc.
8 and the change in the service provider upon transfer of MGTC's assets.

9
10 Stated another way, Northeast Black Hills Energy is seeking to defer certain of the
11 costs that were incurred when it began providing service to the customers previously
12 served by MGTC. If the Commission permits the deferral of these costs, and thus the
13 creation of a *regulatory asset*, Northeast Black Hills Energy will have an opportunity
14 to request that these transition costs be included in Wyoming retail rates at some time
15 in the future. My testimony is responsive to this request and offers some context for
16 both the Applicant's request and the OCA's recommendation.

17
18 Northeast Black Hills Energy began service to the former MGTC customers on
19 January 1, 2015. The application in this proceeding was filed more than one year
20 later on February 9, 2016.

21
22 **Q. WHAT IS THE OCA'S OVERALL RECOMMENDATION IN THIS**
23 **PROCEEDING?**

24 A. The OCA recommends that the Commission deny Northeast Black Hills Energy's
25 request. This recommendation is based on both the timing of the request and the
26 nature of the costs included in the requested deferral.

27
28 **Q. ARE YOU SPONSORING ANY SCHEDULES OR EXHIBITS THAT ARE**
29 **NOT CONTAINED WITHIN THE BODY OF YOUR DIRECT TESTIMONY?**

30 A. No, I am not. My written testimony contains all of the support for my
31 recommendations that I wish to offer at this time.

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Q. PLEASE SUMMARIZE THE BACKGROUND OF THIS APPLICATION.

A. The history of this case begins with the request of Cheyenne Light, Fuel and Power to purchase the assets of MGTC, and to transfer MGTC’s certificate of public convenience and necessity to Cheyenne Light, Fuel and Power. The application for the purchase of MGTC included little or no discussion about the recovery of the transition or integration costs.¹ However, the pre-filed rebuttal testimony of Mr. Justin Klapperich, at page 12, states:

As discussed in Section III(e) of the Transition and Regulatory Plan, as is the case with transaction costs, the full extent of the transition costs that will be necessary to complete this transition are not known at this time, and may not be fully quantifiable until a complete transition is made post-closing. ***If this transition is approved by the Commission, CLFP anticipates seeking approval from the Commission to establish a regulatory asset for transition costs.*** CLFP intends to propose recovery of these costs in a future general rate proceeding... [Emphasis added.]

Mr. Klapperich’s pre-filed rebuttal testimony was dated October 10, 2014. This was a full sixteen months prior to the filing of this deferral application.

In the Commission’s *Memorandum Opinion, findings and Order Approving the Joint Application* in the MGTC sale docket,² paragraph 17 describes the conditions to which Cheyenne Light, Fuel and Power assented. One of these conditions was that Cheyenne Light, Fuel and Power would “file an application requesting the Commission grant the Company authority to establish a regulatory asset comprised of the transition costs for collection in the next general rate case”.

However, as expressed in paragraph 34 of this same *Order*, the Commission made clear that the application to be filed was to be evaluated on its own merits, “based on the provided support, and [is] not being approved here”. It is notable that this *Order*

¹ Docket No. 30003-62-GA-14 and 30005-187-GA-14, *Joint Application of MGTC, Inc. and Cheyenne Light, fuel and Power Company for Approval of Reorganization of a Public Utility and Transfer of Assets and of its Certificate of Public Convenience and Necessity, filed March 18, 2014.*

² Issued January 15, 2015.

1 was issued nearly thirteen months prior to the filing of this application requesting a
2 deferral of the transition costs. It is also notable that the filing of the application to
3 defer costs was a condition of the MGTC sale transaction, but that approval of the
4 request for a regulatory asset would depend on the merits of the application and the
5 support provided therein. Thus, one would have thought that if there was a strong
6 desire to defer these transition costs, a complete, supportable, timely application
7 would have been filed by Northeast Black Hills Energy. For reasons I will explain
8 further below, the OCA suggests that the application was neither timely nor
9 sufficiently detailed to support a grant of the application.

10
11 On February 8, 2016, Northwest Black Hills Energy filed the request to establish a
12 regulatory asset that is the subject of this proceeding. OCA filed its Notice of
13 Intervention on March 9, 2016, and then filed Comments on this matter on May 11,
14 2016. The OCA comments raised questions and concerns about the timing of the
15 application and the nature of the costs the Applicant seeks to defer. These comments
16 were prepared based on the OCA's review of the application and the responses
17 received to discovery. At the time our comments were filed, Northeast Black Hills
18 Energy had not yet filed its direct testimony. Pursuant to the Commission's
19 scheduling order, the Applicant's direct testimony was filed on July 22, 2016.

20
21 **Q. PLEASE EXPLAIN WHY THE OCA HAS EXPRESSED CONCERN ABOUT**
22 **THE TIMING OF THE FILING OF THIS APPLICATION.**

23 A. There are several different aspects to the overarching concern about the timing of the
24 application. First, the delay in the filing and the reasoning for the delay that is
25 described in Mr. Brigg's testimony in this proceeding is entirely different than the
26 testimony that was provided during the MGTC sale hearing. Second, the request to
27 now defer costs that have previously been expensed is inconsistent with prior rulings
28 of the Commission relative to deferrals. Third, the practice that Northeast Black Hills
29 Energy used to expense costs and now retroactively defer them appears to be
30 inconsistent with the practice of some other utilities.

31

1 Starting with the first aspect, I turn to Mr. Brigg's direct testimony at page 7, where
2 he states:

3 Second, the Commission, its Staff, and the parties in the docket
4 were all aware the company would file this application. Therefore,
5 the Company believed it was best to defer the application until all
6 the transition costs were incurred and reviewed to avoid potential
7 true-ups in the future.

8
9 Yet, this is quite different than the testimony that Mr. Stege provided at the time of
10 the MGTC sale hearing. In his live testimony, he was questioned by Ms. Norby of
11 the Commission's Staff:

12 Q. Okay. With regard to the transition costs, you stated the company
13 will file for regulatory asset. Will you be doing that once the
14 transaction has been completed?

15 A. I anticipate once it's approved, we'll come in on the heels of that
16 and file for approval to have this regulatory asset set up.

17 Q. Will all the costs be known at that time?

18 A. No. Some will be known, but much of the work begins, as you
19 know, once Day 1 happens in terms of customer service and load
20 control, lots of these.³

21

22 It is troubling that the conditions of the sale were based on an understanding of one
23 set of expectations provided at the hearing that then were turned on their head once
24 the order was issued. Moreover, this is not just an issue of expectations not being
25 met, but also goes to whether asking for the deferral of costs after they have all been
26 incurred is consistent with prior Commission decisions.

27

28 **Q. PLEASE DESCRIBE THE PRIOR DECISION YOU ARE REFERENCING.**

29 A. In 2000, PacifiCorp sought to defer costs incurred during the period of November 1,
30 2000 through October 1, 2001, or such other date as rates go into effect providing for
31 recovery of the identified excess power costs.⁴ The excess costs to which the
32 application referred were costs primarily related to abnormally high wholesale

³ Page 34 of the transcript from hearing held on November 24, 2014 in Docket No. 30003-62-GA-14.

⁴ Docket No. 20000-ER-00-160, the Matter of the Application of PacifiCorp for authority to Defer Excess Net Power Costs Incurred, Commencing November 1, 2000.

1 market prices. The application was filed November 1, 2000, and asked for authority
2 to defer costs that were incurred as of November 1, 2000.

3
4 At its November 30, 2000, open meeting wherein the Commission considered the
5 PacifiCorp request, the Commission found that the costs to be deferred should be
6 those that were incurred on or after the date of the Commission's interim decision on
7 the matter: November 30, 2000. As stated in the Commission's December 1, 2000,
8 *Notice and Interim Order*, at paragraph 7:

9 ...Further, although PacifiCorp asked that the accrual run from
10 November 1, 2000, the date the application was filed, that would
11 leave no time for even a brief examination of the matter and its
12 fitness for approval in whole or in part. The accrual should
13 therefore begin on November 30, 2000, the date of our
14 consideration of and interim decision on this matter; and we do not
15 believe that the public interest would be served by approval that
16 had a retroactive effect...

17
18 The OCA sees no reason for the Commission to rule differently in this immediate
19 proceeding requesting a deferral than it did in the earlier PacifiCorp case. Routinely,
20 utilities ask for deferrals of costs prior to the incurrence of the cost.

21
22 **Q. WHAT IS AN EXAMPLE OF A UTILITY SEEKING TO RECEIVE THE**
23 **APPROVAL TO ESTABLISH THE REGULATORY ASSET BEFORE IT**
24 **ACTUALLY BEGINS TO DEFER EXPENSES?**

25 A. The example comes from a current merger proceeding, wherein Dominion Resources
26 seeks to purchase Questar Gas. In the Utah proceeding wherein Dominion sought
27 regulatory approval for the merger,⁵ the Utah Office of Consumer Services asked a
28 data request seeking information about transition costs. The response to this request
29 3.09, dated June 10, 2016, states:

30 At this time, Questar Gas has not incurred any transition costs that
31 it intends to include in a Commission approved deferred asset.
32 External transition costs incurred to date by Dominion are de
33 minimus. When transition costs are incurred they cannot be
34 deferred since there is no accounting order allowing their deferral.
35 Any costs characterized as transition costs will be recorded in their

⁵ Utah Public Service Commission Docket No. 16-057-01.

1 proper FERC accounts. Costs will begin to be deferred as
2 transition costs only after receiving an accounting order from the
3 Commission.
4

5 Receiving an accounting order prior to deferring an expense is standard practice in
6 the utility industry. That is why it is common for an application for a deferral to be
7 filed with a regulator as soon as the unusual cost is anticipated or begins to be
8 incurred. It is also the reason that costs for rate riders are made in advance of many
9 large expenditures – so that the regulatory process is established in advance of the
10 cost to be recovered is incurred. It is also why the matter of whether and when a
11 request would be formally made to defer the transition costs was a condition of the
12 merger.
13

14 **Q. IN HIS TESTIMONY, AT PAGE 8, MR. BRIGGS INDICATES THAT “THE**
15 **COMPANY WAS UNABLE TO FILE THE PRESENT APPLICATION PRIOR**
16 **TO THE APPROVAL OF THE ACQUISTION” WITH AN INFERENCE**
17 **THAT THE NATURE OF THE TRANSITION OR INTEGRATION COSTS**
18 **DID NOT PERMIT AN EARLIER FILING THAN WAS MADE. DO YOU**
19 **AGREE?**

20 A. No. In many – in fact, most – merger or acquisition applications contain a provision
21 that seeks approval to defer certain costs related to integration of the two systems
22 subject to the transaction. For example, in a Black Hills case that followed shortly on
23 the heels of the MGTC purchase, the application for approval to purchase another
24 utility included a clear request to defer the transition costs.⁶
25

26 So to be clear: Cheyenne Light failed up-front in its application seeking to purchase
27 the MGTC assets to seek approval of the deferral of transition costs, and thus, agreed
28 to make the application following the approval of the acquisition. It then failed to
29 make the promised filing seeking the regulatory asset in a timely manner following

⁶ Direct Testimony of Richard Kinzley in Docket No. 30023-1-GA-15, dated August 10, 2015, the proceeding wherein Black Hills sought to purchase SourceGas, at page 8, “To that end, the Joint Application in this matter request that the Commission enter an appropriate accounting order to allow for these transition costs to be deferred and recorded as a regulatory asset on the books of Black Hills Gas Distribution, LLC (the renamed SourceGas Distribution.)”

1 the order that included a condition that it make such a filing. When it did make its
2 filing, it was after the transition costs had all already been incurred and recorded as an
3 expense on the books of Northeast Black Hills Energy. However, there was no
4 conceptual reason that the series of events had to occur this way. It was a choice of
5 the utility and its management. To argue that circumstances did not permit a timely
6 filing or even a filing in advance of the close of the transaction is bunk. It is just not
7 correct, as shown by many examples of others – including examples from Black Hills
8 – in other cases where requests were made in advance of incurring the costs to be
9 deferred.

10
11 **Q. TO CLOSE OUT THE DISCUSSION ON THE TIMING OF THE FILING,**
12 **ARE YOU ALSO CONCERNED THAT NORTHEAST BLACK HILLS**
13 **ENERGY IS NOW SEEKING TO DEFER COSTS THAT HAVE ALREADY**
14 **BEEN EXPENSED ON THE UTILITY’S FINANCIAL STATEMENTS?**

15 A. Yes. Mr. Briggs states, on page 9 of his direct testimony, that these transition costs
16 that were incurred in 2014 and 2015 have already been expensed. Yet, he expresses
17 no concern about the concept of reporting the transition costs as expenses in one
18 financial reporting period and then in the next period, plucking those costs out of the
19 expense accounts and reporting them as an asset to be recovered in a later time
20 period. He also does not discuss whether the earlier time period financials would be
21 corrected, restated, or otherwise modified.

22
23 Mr. Briggs also does not discuss that what he proposes is highly unusual. The normal
24 regulatory practice is to determine prior to preparation of financial reports whether a
25 cost will be an expense or asset. That decision then drives how the financial report
26 will be prepared. Frankly, I have seen several instances where a utility decided that it
27 was probable that it would be permitted to defer a particular cost, even though the
28 regulatory decision had not yet been finalized. In these instances, the utility recorded
29 the cost as an asset, with the risk that it might have to be written off at a later time. I
30 have even seen instances where the utility guessed wrong, and write-offs occurred.
31 But, I cannot recall any instance where expenses reported several years back were

1 later turned into assets for future recovery in rates. If this is not the classic case of
2 retroactive ratemaking, then I don't know what is.

3
4 **Q. COULD NORTHEAST BLACK HILLS ENERGY HAVE CREATED THE**
5 **REGULATORY ASSET ON ITS FINANCIAL REPORTS EVEN THOUGH IT**
6 **HAD NOT YET FILED ITS APPLICATION TO DEFER THE TRANSITION**
7 **COSTS?**

8 A. Yes. The accounting standard calls for a regulatory asset to be recorded if it is
9 probable that the regulator will permit recovery of the expense being deferred by
10 including it in the future rates charged to customers. This is a determination that
11 utilities regularly make with the input of regulators, but also with the input of its
12 auditors and lawyers, and based on past practices.⁷

13
14 **Q. IF THE COMMISSION AGREES WITH THE OCA THAT THE**
15 **TRANSITION COSTS -- WHICH HAVE ALREADY BEEN EXPENSED IN**
16 **2014 AND 2015 -- SHOULD NOT NOW BE DEFERRED, WHAT IMPACT**
17 **WILL THE DECISION HAVE ON NORTHEAST BLACK HILLS ENERGY**
18 **EARNINGS?**

19 A. As stated above, these costs have already been taken into account when Northeast
20 Black Hills Energy reported its 2015 earnings in various regulatory forums and
21 reports. The financial hit for these unrecovered costs has already been reflected. The
22 financials, as reported, will not change with a Commission decision not to defer. On
23 the other hand, if deferral is granted, and the costs are ultimately put into the retail
24 rate computation, the utilities' revenues and earnings will increase for those later time
25 period, as will the customers' rates.

26

⁷ For example, in its 10-K for the fiscal year ended December 31, 2015, Dominion Resources included the following language on page 86, in its footnote on Regulatory Assets and Liabilities:

“The companies evaluate whether or not recovery of their regulatory assets through future rates is probable and make various assumptions in their analyses. The expectations of future recovery are generally based on orders issued by regulatory commissions, legislation or historical experience, as well as discussions with applicable regulatory authorities and legal counsel. If recovery of a regulatory asset is determined to be less than probable, it will be written off in the period such assessment is made.”

1 **Q. IS THE OCA ALSO CONCERNED ABOUT THE NATURE OF SOME OF**
2 **THE EXPENSES THAT NORTHEAST BLACK HILLS ENERGY SEEKS TO**
3 **DEFER, AND WHETHER THOSE ARE PROPER EXPENSES FOR**
4 **POTENTIAL RECOVERY FROM WYOMING RETAIL CUSTOMERS?**

5 A. Yes. The OCA is concerned that there has been no showing by the Applicant that the
6 costs that they seek to defer for future recovery are not internal costs already being
7 recovered through rates. There is also no showing that these costs are reasonably
8 related to the integration of MGTC customers into Black Hills' operations. Finally,
9 there is no discussion of integration costs that more appropriately are the
10 responsibility of shareholders, rather than ratepayers, and thus, should not be included
11 as part of any deferral granted in this proceeding.
12

13 **Q. ISN'T IT THE PRACTICE OF THE WYOMING COMMISSION TO STATE**
14 **THAT NO RATE RECOVERY IS BEING DECIDED IN CASES WHERE**
15 **DEFERRALS ARE REQUESTED, AND INSTEAD, LEAVE THE RATE**
16 **RECOVERY ISSUES TO DIFFERENT REGULATORY PROCEEDINGS?**

17 A. Yes. However, when it is obvious that a cost is not appropriate to be recovered in the
18 future from customers, there is no reason to allow it to sit in a regulatory asset now.
19 The regulatory asset should only reflect those costs that have a reasonable probability
20 of being recovered through rates. Thus, there is good reason to take at least a cursory
21 look at the nature of the expenses at this time.
22

23 **Q. HAVE YOU EXAMINED THE COSTS THAT NORTHEAST BLACK HILLS**
24 **ENERGY SEEKS TO DEFER, AND IF SO, DO YOU HAVE SOME**
25 **THOUGHTS ON THEM?**

26 A. Yes, I have performed a cursory examination of the transition costs and have some
27 concerns I wish to express at this time. The attachment to Northeast Black Hills
28 Energy's response to the OCA's Information Request 1.2 provides a list of the costs
29 that it seeks to defer. This list breaks the costs down by cost category and also by
30 account number. If one were to summarize the costs by FERC account number, the
31 following is the result:

1

Table 1: Black Hills Energy Proposed Transition Costs by FERC Account

FERC Account Number	Account Title (Expenses)	Transition Cost	Percentage of Total Cost*
856	Transmission Operation, Mains Expense	\$27,853	4.71%
859	Transmission Operation, Other Expenses	\$97,000	16.40%
863	Transmission Maintenance, Maintenance of Mains	\$39,692	6.71%
870	Transmission Maintenance, Operation Supervision and Engineering	\$67,743	11.45%
879	Distribution Operation, Customer Installations	\$3,151	0.53%
880	Distribution Operation, Other	\$27,922	4.72%
893	Distribution Maintenance, Maintenance of Meters and House Regulators	\$2,351	0.40%
901	Customer Accounts, Supervision	\$9,941	1.68%
903	Customer Accounts, Customer Records and Collection	\$4,338	0.73%
905	Customer Accounts, Miscellaneous	\$31,839	5.38%
907	Customer Service and Informational, Supervision	\$1,850	0.31%
909	Information and Instructional Advertising	\$229	0.04%
920	Administrative and General Salaries	\$269,054	45.49%
921	Office Supplies and Expenses	\$7,569	1.28%
935	Maintenance of General Plant	\$898	0.15%
	TOTAL	\$591,430	
	* May not total 100% due to rounding of percentages.		

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It is somewhat concerning that 45% of the costs that Black Hills Energy seeks to defer are Administrative and General costs. Underlying the OCA concern is the question of whether these costs are truly incremental costs that are not already being collected in rates from some set of Black Hills Energy customers. If they are already in rates and being collected by Black Hills Energy, the OCA questions why they could then need to be deferred and then put in rates at a later time.

Let me further explain. My understanding is that most, if not all, of the employees whose costs would end up in the category of Administrative and General (particularly for the activities related to the transition) work for Black Hills Service Company. These costs are then either directly assigned or allocated to a corporate subsidiary⁸

⁸ See page 10 of Black Hills Service Company Cost Allocation, amended December 1, 2013, "...Service Company costs are either directly charged to a subsidiary, or indirectly allocated when the cost is not associated with a specific subsidiary. Indirect costs are allocated using one of several pre-defined allocation factors."

1 based on timekeeping that each Service Company employee is required to perform.⁹
2 So, for example, one year a lot of work may be done by Service Company employees
3 on Kansas gas operations and the next year a lot of work may be done by those same
4 employees on Colorado electric operations. This does not mean that there are
5 additional costs for the corporation as a whole; it only means that the costs are being
6 assigned to different entities in different years. The preponderance of these costs
7 (depending on wage increases since rates were established) would already be in the
8 rates for the various entities for which the Service Company performs work. There
9 would only be new or incremental costs if additional employees were added to
10 perform the work or if outside services were hired that had not previously been
11 utilized.

12
13 Thus, in this case, there is no indication that the Black Hills Corporation as a whole
14 had to hire new employees to perform the tasks that were performed as part of the
15 Black Hills Energy integration or transition functions. There is also no indication that
16 those employees were paid overtime or a higher salary in order to perform these
17 integration or transition functions. Thus, it is difficult to see how deferral of these
18 costs would be anything but an opportunity for the corporation to recover these costs
19 twice.

20
21 To provide an illustrative example, let's assume that the Service Company had
22 \$1,000 of costs in 2013 and the only subsidiaries that were the beneficiaries of the
23 work of the Service Company were Cheyenne Light Electric – Laramie County and
24 Cheyenne Light Gas – Laramie County, with the costs split \$750 for electric and
25 \$250 for gas. Let us also assume that this \$1,000 of costs was included in the
26 revenue requirement for these two operations when their rates were established.
27 Thus, the cost of the Service Company was being fully recovered from customers'
28 rates. But now, in 2015, there are three entities for whom work is being performed:

⁹ See page 9 of the Black Hills Service Company Cost Allocation, amended December 1, 2013, "All Service Company employees are required to complete a timesheet for each two week pay period...Employees must complete the code block, as previously discussed, for each time record. The time sheet will default the department and resource. However, the employee is responsible for providing the remainder of the code block."

1 Cheyenne Light Electric -- Laramie County, Cheyenne Light Gas – Laramie County,
2 and Northeast Black Hills Energy, with the costs split \$700, \$200, and \$100,
3 respectively. Yet, the customers’ retail rates for each of these companies remain as
4 they were when the 2013 revenue requirement was established, and thus, \$1,000 is
5 still being recovered from customers’ rates. To now allow the deferral of the \$100
6 assigned to Black Hills Energy provides the likelihood that customers will end up
7 paying \$1,100 when only a \$1,000 of expenses were incurred by the Service
8 Company. While it is unfortunate that the Laramie County customers are still paying
9 part of the cost that benefits non-Laramie County customers, to have it any other way
10 would provide for an unwieldy regulatory process. However, to allow for the
11 deferral of the \$100 now assigned or allocated to Northeast Black Hills Energy would
12 be unreasonable and unjust, and would provide a windfall to Black Hills Corporation.
13

14 Thus, the OCA recommends that the Commission not permit the deferral of these
15 Administrative and General costs unless there is a current showing that the costs are
16 incremental in nature, and not simply a reallocation of costs from a different
17 corporate entity. The OCA recommends that such a showing be made currently,
18 instead of at the time that the costs are sought to be recovered. Waiting several years
19 until cost recovery is sought is not a preferred option, as memories will be less clear
20 as to who did what when and why, and records will be more difficult to review.
21 Besides, as stated above and reiterated here, there is no point in allowing a deferral
22 today of a cost that is not appropriate for recovery at a later date.
23

24 There is one other category of transition cost that the OCA questions as being
25 appropriate for inclusion in a transition cost deferral for future recovery from
26 ratepayers. That category is costs related to *Community Engagement*. Northeast
27 Black Hills Energy shows \$20,459 in costs for this category, with \$20,082 being
28 Administrative and General expenses. Thus, most of these costs would be the subject
29 of the OCA’s arguments above. Notwithstanding that argument, the OCA questions
30 why customers should be required to pay for services that have no direct bearing on

1 the actual service being provided to them. The response to WY CIR Request 1.5
2 explains that Community Engagement costs and activities are:

3 Community Engagement activities are designed to inform the
4 public about the acquisition and about BHE through the
5 development and execution of the Customer/Community/Media –
6 Acquisition Communications Plan including: press releases
7 announcing the acquisition; development of customer
8 communication items such as bill inserts and customer letters;
9 development of advertising – new company – new service
10 territory; and development of the BHE landowner letter.
11

12 The OCA's initial impression is that these costs are generally promotional in nature -
13 touting the new corporate name and ownership – without a direct benefit to
14 customers. Thus, it would be reasonable that shareholders be responsible for these
15 costs, rather than ratepayers. It would, therefore, be inappropriate for these costs to be
16 included in the transition costs proposed to be deferred.
17

18 **Q. IF THE COMMISSION DOES GRANT THE REQUEST TO CREATE A**
19 **REGULATORY ASSET, OVER THE OBJECTIONS OF THE OCA, IS IT**
20 **IMPORTANT THAT THE UTILITY BE REMINDED OF ITS BURDEN OF**
21 **SUPPORTING WHY THESE COSTS ARE APPROPRIATE FOR**
22 **INCLUSION IN CUSTOMER RATES WHEN IT DOES SEEK TO RECOVER**
23 **THEM?**

24 A. Yes. A rate case for Northeast Black Hills Energy is not expected for several more
25 years. Memories are already fading, and there is no indication in this proceeding as
26 to the records being kept that show the cost benefit to customers of the MGTC
27 acquisition and the incurrence of these transition costs as part of the larger
28 transaction. Thus, Northeast Black Hills Energy should be thinking now about the
29 burden that it will bear in a few years to justify the recovery of these costs.
30

31 **Q. PLEASE SUMMARIZE THE OCA'S RECOMMENDATIONS IN THIS**
32 **PROCEEDING.**

33 A. The OCA recommends that the application to move transition costs that have already
34 been expensed and use them to create a regulatory asset be denied.

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If the Commission determines that a deferral is appropriate at this time, Northeast Black Hills Energy should be required to put some systems and recordkeeping into place now, so that at the time of its next rate case, it will be able to support any request for cost recovery of the integration costs with cost – benefit analysis and other supporting data from the MGTC acquisition.

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Q. DOES THAT COMPLETE YOUR PREFILED DIRECT TESTIMONY?

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A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF)
BLACK HILLS ENERGY, A DIVISION OF)
CHEYENNE LIGHT, FUEL AND POWER)
COMPANY FOR AN ACCOUNTING ORDER TO)
ESTABLISH A REGULATORY ASSET FOR)
TRANSITION COSTS)

DOCKET NO. 30003-67-GA-16
RECORD NO. 14320

AFFIDAVIT, OATH AND VERIFICATION

Denise Kay Parrish (Affiant) being of lawful age and being first duly sworn, hereby deposes and says that:

Affiant is the Deputy Administrator of the Wyoming Office of Consumer Advocate which is a party intervener in this matter pursuant to its Notice of Intervention filed on March 8, 2016.

Affiant prepared and caused to be filed the foregoing testimony. Affiant has, by all necessary action, been duly authorized to file this testimony and make this Oath and Verification.

Affiant hereby verifies that, based on Affiant’s knowledge, all statements and information contained within the testimony and all of its attached schedules are true and complete and constitute the recommendations of the Affiant in her official capacity as Deputy Administrator of the Wyoming Office of Consumer Advocate.

Further Affiant Sayeth Not.
Dated this 2nd day of September, 2016.

Denise Kay Parrish, Deputy Administrator
Wyoming Office of Consumer Advocate
2515 Warren Avenue, Suite 304
Cheyenne, WY 82002
(307) 777-5743

STATE OF WYOMING)
) SS:
COUNTY OF LARAMIE)

The foregoing was acknowledged before me by Denise Kay Parrish on this 2nd day of September, 2016. Witness my hand and official seal.

My Commission Expires: