

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF NEBRASKA**

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<b>In the Matter of the Application of</b>	)	
<b>Black Hills/Nebraska Gas Company, LLC</b>	)	<b>Application No. NG-0086</b>
<b>d/b/a Black Hills Energy for Approval of</b>	)	
<b>its Cost of Service Gas Hedge Agreement with</b>	)	
<b>Black Hills Utility Holdings, Inc.</b>	)	

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**PUBLIC VERSION  
REBUTTAL TESTIMONY OF  
KYLE D. WHITE**

**On Behalf of Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy  
And  
Black Hills Utility Holdings, Inc.**

**March 26, 2016**

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**Exhibits**

Exhibit KDW-1: Henry Hub Natural Gas Spot Price

1                                   **I. INTRODUCTION AND QUALIFICATIONS**

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

3   A. My name is Kyle D. White. My business address is 625 9th Street, Rapid City, South  
4       Dakota 57701.

5   **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6   A. I am employed by Black Hills Service Company (“Service Company”), a wholly-owned  
7       subsidiary of Black Hills Corporation (“Black Hills”), as Vice President of Regulatory  
8       Affairs. My areas of responsibility include regulatory affairs for the regulated utility  
9       subsidiaries of Black Hills.

10   **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

11   A. I am testifying on behalf of Black Hills/Nebraska Gas Utility Company, LLC d.b.a. Black  
12       Hills Energy (the “Company”).

13   **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.**

14   A. I graduated with honors from the University of South Dakota in May of 1982 with a  
15       Bachelor of Science degree in Business Administration, majoring in management. In  
16       August of 1989, I graduated with a Master’s degree in Business Administration, also from  
17       the University of South Dakota. I have been employed by Black Hills in rate, resource  
18       planning and marketing related work since July of 1982 and have been in my present  
19       position since August of 2012. During my career, I have been actively involved in  
20       preparing applications, testifying and receiving regulatory approvals related to numerous  
21       rate cases, changes in rules or regulations, and requests for certificates of public  
22       convenience and necessity for both power generation and transmission. I have also led  
23       successful efforts to achieve regulatory approvals for utility acquisitions in six states. In

1 addition to on-the-job training, I have also attended numerous seminars, trade association  
2 meetings, and regulatory conferences covering a variety of utility-related subjects.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

4 A. Yes, I have. Most recently in Application No. NG-0084, I testified regarding the  
5 acquisition of SourceGas Distribution LLC, SourceGas, LLC, and SourceGas Holdings,  
6 LLC by Black Hills Utility Holdings, Inc.

7 **II. PURPOSE OF REBUTTAL TESTIMONY**

8 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

9 A. My rebuttal testimony supports the application filed in this matter and responds to the direct  
10 testimony of Nebraska Public Advocate witness Michael McGarry, Constellation  
11 NewEnergy - Gas Division, LLC witness Stephen Bennett, and Public Alliance for  
12 Community Energy witness Beth Ackland. Specifically, those witnesses have raised  
13 concerns about relying on price forecasts and potential cost of service prices for customers  
14 under the COSG Program, but their direct testimony demonstrates a noticeable lack of  
15 concern related to the very real likelihood of higher spot market natural gas prices in the  
16 future.<sup>1</sup>

17 **III. RESPONSE TO THE DIRECT TESTIMONY OF MR. MCGARRY,**

18 **MR. BENNETT, AND MS. ACKLAND**

19 **Q. HOW DO YOU ADDRESS INTERVENOR CRITIQUES ABOUT RELYING ON**  
20 **GAS PRICE FORECASTS?**

21 A. The intervenors do not fairly represent the value of forecasts or how they would be used in  
22 the COSG Program. The intervenors point out that forecasted prices do not match actual

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<sup>1</sup> McGarry Direct Testimony, Page MJM-36, Lines 10-13; Bennett Direct Testimony, Page 15, Lines 9-19; Ackland Direct Testimony, Page 7, Lines 7-11.

1 prices. This is an unremarkable observation. As the Commission is clearly aware,  
2 forecasts always vary to some extent from actual performance. That fact does not  
3 undermine the importance of using forecasts in utility decision-making. Accordingly to  
4 the intervenors' logic, one would never use long-term forecasts to make any resource  
5 decisions. That view is clearly shortsighted. Long-term forecasts are routinely relied on  
6 throughout the utility industry to make long-term decisions. That is at least in part why  
7 they are generated in the first place. That said, care should be taken to use current industry-  
8 accepted forecasts and market fundamentals should be considered in connection with price  
9 forecasts. That is precisely what the COSG Program requires in Phase II. As noted  
10 throughout the Company's direct and rebuttal testimony, the COSG Agreement requires  
11 that a proposed acquisition would be assessed against the *then-current* Long-Term Market  
12 Price Forecast for Gas. This forecast will be a composite of industry-accepted long-term  
13 price forecasts, which will reflect the then-existing long-term market supply/demand  
14 balance fundamentals. In this Phase I proceeding, the potential value of the COSG  
15 Program can also be assessed by looking at current market conditions in light of historical  
16 gas costs.

17 **Q. BASED ON CURRENT MARKET CONDITIONS, WHAT DOES THE COMPANY**  
18 **ANTICIPATE A PHASE II APPLICATION WILL MEAN FOR CUSTOMERS IN**  
19 **TERMS OF EFFECTIVE COST OF GAS?**

20 A. With the current financial stress being experienced by the oil and gas industry, Black Hills  
21 believes that it is possible to acquire gas production and related proven reserves at short  
22 and long-run costs that would be attractive to our retail natural gas customers. If the  
23 Commission approves this Phase I application, Black Hills intends, based on current

1 market conditions, to pursue an acquisition to initiate the COSG Program that meets the  
2 approved criteria and that has an expected short and long-run total cost of service price for  
3 customers of █████ per dekatherm or better. Considering relevant historical prices for  
4 natural gas, this should be attractive and beneficial to customers. At this target price,  
5 COSGCO will be seeking to acquire assets from non-affiliated producers.

6 **Q. WHAT EVIDENCE DOES THE COMPANY HAVE THAT THIS PRICE WOULD**  
7 **BE ATTRACTIVE AND BENEFICIAL TO CUSTOMERS?**

8 A. Attached is Exhibit KDW-1 which provides the Henry Hub Natural Gas Spot Price in  
9 dollars per Million Btu (1 Million Btu equals 1 dekatherm) by month from the years 1997  
10 through 2015. This exhibit is taken from the Direct Testimony of Iowa Office of Consumer  
11 Advocate Witness Blake J. Kruger, Schedule A, in the Iowa cost of service gas docket  
12 (Docket Nos. SPU-2015-0028, WRU-2015-0032-0225, & TF-2015-0327). Mr. Kruger  
13 prepared this exhibit to demonstrate that the average price at the Henry Hub from 2009  
14 through 2015 was \$3.69 per dekatherm. It has now been highlighted by me to show all  
15 months beginning in 2000 where the spot market price was \$3.00 per dekatherm or greater.  
16 Mr. Loomis Exhibit RCL-1 and Figure 1 from his direct testimony also sets forth this data.<sup>2</sup>

17 **Q. WHAT DO YOU OBSERVE FROM THIS EXHIBIT?**

18 A. In 83% of the months since January 2000, the average Henry Hub price was *greater* than  
19 \$3.00 per dekatherm. In 90% of the months during that same 16-year period, the average  
20 Henry Hub price was greater than \$2.75 per dekatherm. If instead we just consider average  
21 monthly prices at Henry Hub that were at least roughly double the current low spot market  
22 prices, we can see that 60% of the months are \$4.00 per dekatherm or more. In fact, the

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<sup>2</sup> Loomis Direct Testimony, Page 4.

1 average price in those months was \$6.23 per dekatherm, which is more than twice the figure  
2 the Company believes is possible for an initial acquisition under the COSG Program.

3 **Q. FROM THESE OBSERVATIONS OF THE DATA, WHAT ARE YOUR**  
4 **CONCLUSIONS REGARDING THE PROBABILITY OF A SUCCESSFUL COST**  
5 **OF SERVICE GAS PROGRAM FOR NEBRASKA CUSTOMERS?**

6 A. If COSGCO can successfully acquire natural gas assets with a cost of service price for  
7 customers that we believe is likely in the near term, the Commission, and the customers  
8 whose interests it represents, can feel confident that the COSG Program will likely realize  
9 the two goals set forth in the application: (1) decrease customers' exposure to volatile  
10 market prices over the long-term; and (2) save customers money over the life of the  
11 reserves compared to spot market purchases. Approval is needed in this Phase I proceeding  
12 to take the next step toward implementing the COSG Program by finding at least one  
13 property that satisfies the approved Acquisition Criteria and then bringing it to the  
14 Commission for review and approval.

15 **Q. BASED ON CURRENT MARKET CONDITIONS, HOW LONG DOES THE**  
16 **COMPANY EXPECT THIS OPPORTUNITY WILL BE AVAILABLE?**

17 A. It is challenging to know precisely when the spot market price for natural gas will rebound.  
18 However, the financial shake-up in the oil and gas industry that is creating this opportunity  
19 may only last for a year or two. This is because the weakest producers will exit, and the  
20 remaining businesses will have made the changes necessary to endure this low price  
21 environment until the next run-up in natural gas prices. It is a buyer's market today, and  
22 buyers will need to act quickly when acquisition opportunities are presented.

1 **Q. WHAT IS THE PLAN FOR IMPLEMENTING THE COSG PROGRAM IF**  
2 **APPROVAL IS OBTAINED IN THIS PHASE I PROCEEDING?**

3 A. The following provides what the Company expects to be the plan basics:

- 4 1. Obtain regulatory approval for the COSG Program's scope, structure, level of  
5 participation, and Acquisition Criteria in Phase I proceedings in Nebraska and other  
6 states.
- 7 2. With the Commission's input and approval, identify and engage independent  
8 Hydrocarbon and Accounting Monitors to support the Commission and stakeholders  
9 as the COSG Program is implemented.
- 10 3. Identify available reserves that would satisfy the Acquisition Criteria approved by the  
11 Commission in this Phase I proceeding. To do so, the Company would reach out to  
12 investment banks, issue formal RFPs, and also engage a petroleum engineering firm  
13 to identify assets for potential unsolicited purchase offers.
- 14 4. Negotiate to acquire identified reserve opportunities that can be presented to the  
15 Commission for approval. Subject to adequate protections for confidentiality, provide  
16 due diligence information about potential acquisitions to the Hydrocarbon Monitor.
- 17 5. Execute an acquisition agreement with closing made contingent on state commission  
18 approvals.
- 19 6. Submit proposed property and associated Drilling Plan to Hydrocarbon Monitor for  
20 review; if approved, submit proposed property and associated Drilling Plan to  
21 regulatory commissions for review/approval in accordance with process approved in  
22 this Phase I proceeding.
- 23 7. If state commission approval is received, close on asset purchase by COSGCO.

24 **Q. IS THE COMPANY PREPARED TO CONDUCT A SEARCH FOR LOW COST**  
25 **PRODUCTION AND RELATED PROVEN RESERVES?**

26 A. Yes. However, approval of the COSG Program in this Phase I proceeding by the  
27 Commission is required before Black Hills can effectively know the specifications of what  
28 it should be shopping for.

29 **IV. CONCLUSION**

30 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

31 A. Yes.