

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO  
PROCEEDING NO. 22AL – \_\_\_\_ G**

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**IN THE MATTER OF ADVICE LETTER NO. 16 FILED BY BLACK HILLS COLORADO  
GAS, INC. TO REVISE ITS LINE EXTENSION TARIFFS TO BE EFFECTIVE ON  
MARCH 7, 2022.**

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**DIRECT TESTIMONY AND ATTACHMENTS OF  
DOUGLAS N. HYATT  
ON BEHALF OF  
BLACK HILLS COLORADO GAS, INC.**

**NOTICE OF HIGHLY CONFIDENTIAL**

**A PORTION OF THIS TESTIMONY ON PAGE 21 AND THE FOLLOWING  
ATTACHMENT HAVE BEEN FILED UNDER SEAL:**

**Hearing Exhibit 101, Attachment DNH-1HC**

**These documents are filed under seal pursuant to 4 CCR 723-1-1100 and 1101  
*Redacted Versions have been filed publicly***

**January 12, 2022**

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**List of Attachments**

<b>Attachment DNH-1HC</b>	<b>RA1 Construction Allowance Model</b>
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<b>Attachment DNH-5</b>	<b>Line Extension Tariffs Redline</b>
<b>Attachment DNH-6</b>	<b>Proposed Line Extension Tariffs Clean</b>

**List of Acronyms**

2019 Rate Review	Proceeding No. 19AL-0075G
BHC	Black Hills Corporation
BHCG or Company	Black Hills Colorado Gas, Inc.
BHCOG	Black Hills/Colorado Gas Utility Company, Inc.
BHGD	Black Hills Gas Distribution, LLC
BHUH	Black Hills Utility Holdings, Inc.
CCOSS	Class Cost of Service Study
Commission	Colorado Public Utilities Commission
GRSA	General Rate Schedule Adjustment
Staff	Staff of the Colorado Public Utilities Commission
IOU	Investor-Owned Utility
RA1	Rate Area 1
RA2	Rate Area 2
RA3	Rate Area 3
UCA	Colorado Office of the Utility Consumer Advocate

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**DIRECT TESTIMONY OF DOUGLAS N. HYATT**

**I. INTRODUCTION**

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

A. My name is Douglas N. Hyatt. My business address is 1515 Arapahoe Street, Tower 1, Suite 1200, Denver, CO 80202.

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

A. I am employed by Black Hills Service Company, a wholly owned subsidiary of Black Hills Corporation (“BHC”). I am Principal Analyst - Regulatory & Finance.

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

A. I am testifying on behalf of Black Hills Colorado Gas, Inc. (“BHCG” or the “Company”) d/b/a Black Hills Energy.

**II. STATEMENT OF QUALIFICATIONS**

**Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES IN YOUR CURRENT POSITION?**

A. I am responsible for gathering, researching and analyzing customer billing data, and other information to prepare analyses in support of internal analysis and external regulatory reports and filings. I am also responsible for preparing class cost of services studies and designing rates for the Company’s various rate proceedings.

**Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.**

1 A. My education, employment history and professional experience is provided in Appendix  
2 A.

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

4 A. Yes. I have testified before the Colorado Public Utilities Commission (“Commission”) in  
5 Proceeding Nos. 17AL-0477E, 18A-0676E, 19AL-0075G, and 21AL-0236G.

6 **Q. ARE YOU SPONSORING ANY ATTACHMENTS?**

7 A. Yes, I am sponsoring the following attachments, which were prepared by me or under my  
8 direct supervision:

9 Attachment DNH-1HC RA1 Construction Allowance Model

10 Attachment DNH-2 RA2 Construction Allowance Model

11 Attachment DNH-3 RA3 Construction Allowance Model

12 Attachment DNH-4 Current Line Extension Tariffs

13 Attachment DNH-5 Line Extension Tariffs Redline

14 Attachment DNH-6 Proposed Line Extension Tariff Clean

15 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

16 A. The purpose of my direct testimony is to describe the process undertaken by the Company  
17 to update its line extension tariffs in order to establish an equivalent line extension policy  
18 among all of BHCG’s service territories and determine the appropriate construction  
19 allowance for new gas service customers. My testimony also introduces the models used  
20 to develop the proposed construction allowances and the proposed changes to the  
21 Company’s line extension tariffs.

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23



1           On September 11, 2020, the Company filed an advice letter proposing to increase  
2           its base rates through revised GRSA's for its three base rate areas in Proceeding No. 20AL-  
3           0380G. As explained therein, the Company initiated that Phase I rate filing to commence  
4           recovering incremental plant investments made since the end of the test year approved by  
5           the Commission in the 2019 Rate Review, including plant investment made in system  
6           safety and integrity projects. In January 2021, the Commission dismissed that Phase I  
7           filing as inconsistent with the Phase II directive in the 2019 Rate Review.<sup>3</sup> As the result  
8           of subsequent procedures on rehearing, the filing of briefs by the parties, and a hearing held  
9           before the Commission on March 16, 2021, the directive for BHCG to file to initiate a  
10          Phase II rate case was modified such that BHCG would be required to file either a Phase  
11          II or a combined Phase I/Phase II rate review within 60 days.<sup>4</sup>

12           On June 1, 2021, the Company filed an advice letter to initiate a combined Phase  
13          I/Phase II rate review in Proceeding No. 21AL-0236G. On October 5, 2021, a Settlement  
14          Agreement was filed resolving all issues which were or could have been contested by the  
15          parties in that proceeding. Decision No. R21-0748 approving the Settlement Agreement  
16          was issued on November 23, 2021, and became a final Commission Decision on December  
17          13, 2021, by operation of law.

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<sup>3</sup> Decision No. C21-0004, mailed January 6, 2021, in Proceeding No. 20AL-0380G. See also the Commission's companion order, Decision No. C21-0005, mailed January 6, 2021, in Proceeding No. 19AL-0075G, denying BHCG's motion for extension of time to file the Phase II rate case.

<sup>4</sup> Decision No. C21-0214, mailed April 13, 2021, in Proceeding No. 19AL-0075G. See also the Commission's companion order upholding its prior denial of BHCG's Application for Rehearing, Reargument and Reconsideration of the Commission's decision to dismiss the Phase I rate case in Proceeding No. 20AL-0380G, Decision No. C21-0214, mailed March 26, 2021, as modified by Errata Notice issued March 29, 2021.

1           On November 8, 2021, the Company sought a temporary variance in Proceeding  
2 No. 21V-0528G from the requirement that BHCG file for approval of its construction  
3 allowances no later than 30 days after a final Commission decision in the Company's next  
4 Phase II rate case. The Company sought to instead make the construction allowance filings  
5 no later than 30 days after a Commission decision is issued in the gas rulemaking in  
6 Proceeding No. 21R-0449G. In Decision No. C21-0826, the Commission denied the  
7 requested waiver.

8 **Q. WHAT IS THE PROCESS A NEW CUSTOMER FOR GAS SERVICE FOLLOWS**  
9 **IN ORDER TO BE CONNECTED TO THE COMPANY'S SYSTEM?**

10 A. Generally, the process is as follows:

- 11 • The customer, or applicant, requests service by contacting the Company.
- 12 • BHCG and the customer discuss the scope of the project, including projected use.
- 13 • BHCG estimates the cost of the line extension.
- 14 • BHCG and the customer sign an agreement that delineates the service and costs that  
15 will be incurred by each party.
- 16 • The costs BHCG will incur are defined as the construction allowance.
- 17 • The costs the customer will incur are defined as the customer's contribution.

18 The following equation depicts the essence of the line extension policy:

$$19 \quad \text{Total Construction Cost} - \text{Construction Allowance} = \text{Customer's Contribution.}$$

20 **Q. WHAT IS A CONSTRUCTION ALLOWANCE?**

21 A. The construction allowance is the portion borne by the Company of the upfront cost of  
22 connecting a typical new customer to the Company's system (new service line and/or main  
23 extension). If the cost of connecting the customer to the Company's system exceeds the



1 amount of the construction allowance, then the customer must pay the difference  
2 (“Customer Contribution”).

3 **Q. PLEASE DESCRIBE THE CURRENT LINE EXTENSION TARIFFS.**

4 A. The Company’s current line extension tariffs is an amalgamation of the tariffs previously  
5 in effect for BHC’s two former Colorado gas utility subsidiaries – Black Hills/Colorado  
6 Gas Utility Company, Inc. (“BHCOG”) and Black Hills Gas Distribution, LLC (“BHGD”).  
7 As a result, there are differences in the handling of line extensions across BHCG’s service  
8 territories.

9 In 2008, after the acquisition of Aquila, Inc., BHCOG was formed to assume  
10 ownership and control of, and commence operating, the Colorado gas utility assets of  
11 Aquila, Inc., which provided service to customers in what is currently referred to as Rate  
12 Area 3 (“RA3”).

13 In 2016, Black Hills Utility Holdings, Inc.’s (“BHUH”) acquired SourceGas  
14 Distribution, LLC, which provided service to customers in what is currently referred to as  
15 Rate Area 1 (“RA1”) and Rate Area 2 (“RA2”) and was subsequently changed to BHGD.

16 On December 31, 2018, BHCG was created to consolidate the assets and operations  
17 of BHCOG and BHGD.<sup>5</sup> BHCG adopted the existing tariffs, rates, terms and conditions  
18 of the two legacy companies, including the two different construction allowance tariffs.

19 On February 1, 2019, the Company filed the 2019 Rate Review to consolidate the  
20 tariffs, service offerings, programs, and rate schedules of its two predecessor utilities,  
21 including updating the construction allowance tariffs. As discussed above, the Commission

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<sup>5</sup> The Commission approved the consolidation in Decision No. C18-0934 in Proceeding No 18A-0583G.

1 required the Company to file in a separate proceeding to update its construction allowance  
 2 tariffs.

3 **Q. WHAT ARE THE DIFFERENCES ASSOCIATED WITH THE CURRENT LINE**  
 4 **EXTENSION TARIFFS?**

5 A. I describe the differences between the current line extension in the separate base rate areas  
 6 in more detail below and Attachment DNH-4 provides a copy of the current line extension  
 7 tariffs. However, Table DNH-1 provides a snapshot of some of the distinctions.

8 **Table DNH-1 – Summary of Line Extension Tariff Differences**

<b>Tariff Differences</b>	<b>RA1 &amp; RA2</b>	<b>RA3</b>
Refundable Period	Three Years	Ten Years
Construction Allowance Method	Revenue-based discounted cash flow method using base rates revenue expected from a customer.	Discounted cash flow method using revenues tied to mains and service line investment.
Construction Allowance Structure	Fixed	Separate Service Line and Main Line Allowances
Additional Construction Allowance	Yes	No
Extension Financing	Extra Construction Allowance	Construction Payment Option

9

10 **Q. PLEASE DESCRIBE THE CURRENT LINE EXTENSION TARIFFS FOR**  
 11 **CUSTOMERS IN RA3.**

12 A. The current line extension tariffs adopted from the BHCOG tariff applicable to customers  
 13 in RA3, which includes a construction allowance calculation methodology and amounts,  
 14 are shown on Sheet Nos. R40-R41 and R44-R45.<sup>6</sup> The line extension calculation  
 15 methodology for RA3 used a discounted cash flow method for calculating the construction  
 16 allowance amounts shown on Sheet No. R41. The calculation included revenues tied only

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<sup>6</sup> See Attachment DNH-4.

1 to mains and service line investment. The methodology and current construction  
2 allowances for RA3 was approved in Docket No. 08S-290G.

3 The Company currently offers an additional construction payment financing option  
4 that allows customers in RA3 to elect for the Company to finance all or a greater portion  
5 of the customer's contribution for amounts between \$500 and \$10,000. At the Company's  
6 discretion, amounts in excess of \$10,000 may be financed with written approval where an  
7 applicant's financial condition is determined by the Company to be satisfactory. If  
8 customers elect the construction payment financing option, they pay a portion of the  
9 financed amount, plus interest, on their monthly bill until the total amount of the customer's  
10 contribution costs and interest are paid off.

11 **Q. PLEASE DESCRIBE THE CURRENT LINE EXTENSION TARIFFS FOR**  
12 **CUSTOMERS IN RA1 AND RA2.**

13 A. The current line extension tariffs were adopted from the BHGD tariffs applicable to  
14 customers in RA1 and RA2, and are shown on Sheet Nos. R40-R43.<sup>7</sup> The construction  
15 allowances amounts for RA1 and RA2 are calculated using a revenue-based discounted  
16 cash flow method which uses the base rates revenues expected from a customer for new or  
17 added load minus the revenue tied to the costs of meters and regulators. The methodology  
18 and current construction allowances for RA1 and RA2 was approved in Docket No. 08S-  
19 108G.

20 The Company also currently offers an "Additional Regular Construction  
21 Allowance" on a dollar-per-therm basis which is in addition to the "Regular Construction

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<sup>7</sup> See Attachment DNH-4.

1 Allowance” amounts. Customers in RA1 and RA2 that use above 757 or 760 therms  
2 annually (depending on base rate area) are eligible to receive this additional dollar-per-  
3 therm allowance.

4 Similar to the line extension policy for RA3, the “Extra Construction Allowance”  
5 tariffs serve as a financing-type mechanism for the customer contribution amounts (i.e.,  
6 any amounts above the “Regular Construction Allowance” and “Additional Regular  
7 Construction Allowance.”)

8  
9 **IV. PROPOSED CONSTRUCTION ALLOWANCE TARIFFS**

10 **Q. WHAT METHOD FOR CALCULATING CONSTRUCTION ALLOWANCES IS**  
11 **THE COMPANY PROPOSING?**

12 A. BHCG is proposing to use a revenue-based discounted cash flow methodology that reflects  
13 the benefit of adding revenue streams from distribution growth. This methodology makes  
14 new service installations more affordable for customers while avoiding any increase in  
15 costs for existing customers. The intent of the proposed construction allowance is to strike  
16 a balance between existing customers' increased rate base and future customers' new load  
17 and revenues to pay increased rate base.

18 **Q. WHY IS THE COMPANY PROPOSING TO USE THIS REVENUE-BASED**  
19 **METHOD FOR CALCULATING CONSTRUCTION ALLOWANCES?**

20 A. On February 2, 2018, the Commission opened a repository proceeding to consider changes  
21 to the Commission’s Rules Regulating Electric Utilities in 4 Code of Colorado Regulations  
22 (CCR) 723-3 and the Rules Regulating Gas Utilities and Pipeline Operators 4 CCR 723-4  
23 (Proceeding No. 18M-0082EG). Staff of the Colorado Public Utilities Commission

1 (“Staff”) was directed to work with the investor-owned utilities (“IOUs”) and other  
2 interested participants to develop draft rule changes regarding line extension policy, which  
3 may be presented in a future rulemaking. This repository proceeding was opened as a  
4 result of Senate Bill 17-271 which was signed into law on June 2, 2017 and directed the  
5 Commission to “open a non-adjudicatory proceeding to evaluate investor-owned utilities’  
6 current service extension policies for serving new load applications.” Further, the statute  
7 directed the Commission to “issue a decision containing recommendations to investor-  
8 owned utilities for potential implementation.” Per the statute, gas-only IOUs, were not  
9 subject to the proceeding but could participate and provide comments. For BHCG, a major  
10 take-away from Proceeding No. 18M-0082EG was that using some sort of revenue-based  
11 method for construction allowance calculations is appropriate. The revenue-based  
12 methods match actual revenues that will be received by the utility for new installations  
13 with the construction allowance amounts offered to customers. This reduces the barriers  
14 for new customers but still ensures that other customers are not burdened with additional  
15 costs.

16 **Q. HAS THE COMPANY ATTEMPTED TO UPDATE ITS LINE EXTENSION AND**  
17 **CONSTRUCTION ALLOWANCE SINCE PROCEEDING NO. 18M-0082EG WAS**  
18 **INITIATED?**

19 A. Yes. As stated previously, BHCG proposed a single revenue-based construction allowance  
20 for its entire Colorado service territory consistent with the goal to establish statewide rates  
21 in the 2019 Rate Review. In that proceeding, certain parties provided answer testimony  
22 regarding the Company’s proposed line extension tariffs. However, the Commission  
23 denied the Company’s proposed consolidation of base rate areas, dismissed BHCG’s

1 remaining Phase II issues, including the proposed construction allowances, and ordered  
2 BHCG to make a new construction allowance filing no later than 30 days after a final  
3 Commission decision in the Company's Phase II rate case.

4 **Q. HAS THE COMPANY ADOPTED ANY REVISIONS IN THIS INSTANT**  
5 **PROCEEDING RECOMMENDED BY THE PARTIES IN THE 2019 RATE**  
6 **REVIEW?**

7 A. Yes. The Company adopted several revisions proposed by the intervening parties in that  
8 proceeding. The Company has accepted Staff and the Colorado Office of the Utility  
9 Consumer Advocate's ("UCA") proposal to continue using the construction allowance  
10 model of BHCOG,<sup>8</sup> which includes only revenues tied to mains and service line  
11 investments. This methodology is used in Attachments DNH-1 through DNH-3 to develop  
12 the proposed construction allowances for the three separate rate areas.

13 **Q. DOES THE PROPOSED METHOD ACCURATELY ACCOUNT FOR THE LONG-**  
14 **TERM VALUE THAT NEW CUSTOMERS PROVIDE?**

15 A. Yes. The Company is proposing the valuation term to better reflect the long-term value of  
16 a new customer. For example, in a new residential unit, the Company believes the value  
17 of the residential construction allowance is not the net present value of revenues generated  
18 by the first homeowner or the net present value of the first ten years of residential customer  
19 revenue. Instead, it is the quantification of the multi-generation net present value of the  
20 revenue commensurate with the life of the service and main assets. The Company intends  
21 for the construction allowance to reflect the long-term value of service and main assets.

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<sup>8</sup> Proceeding No. 19AL-0075G, Hearing Exhibit 404, Rev. 1, Answer Testimony of Mr. Haglund at p. 24, l. 11-16; Hearing Exhibit 300, Rev. 1, Answer Testimony of Mr. Skluzak at p. 119, l. 1-8.

1 Existing customers benefit in future rate reviews from the addition of new customers by  
2 spreading utility fixed operating expenses over a broader volume of customers and load.  
3 Further, existing customers benefit from spreading the cost adjustment mechanisms or  
4 “riders” that include fixed costs with new customers including the Gas Cost Adjustment,  
5 Black Hills Energy Assistance Plan, and Demand Side Management Cost Adjustment over  
6 a broader customer base.

7 **Q. IS THE COMPANY PROPOSING A UNIFORM LINE EXTENSION TARIFF FOR**  
8 **ITS ENTIRE SERVICE TERRITORY?**

9 A. Yes. BHCG is proposing to implement uniform statewide line extension tariffs. However,  
10 the specific construction allowance amounts for each Rate Area will be different. This is  
11 discussed in greater detail below.

12 **Q. ARE RATE BASE RELATED COSTS ASSOCIATED WITH METERS AND**  
13 **REGULATORS INCLUDED IN THE CONSTRUCTION ALLOWANCE?**

14 A. No. The rate base related costs associated with the meters and regulators are borne by the  
15 Company and not new customers. The Company’s construction allowance provides for the  
16 installation of service lines and/or mains for new customers.

17 **Q. HOW DO THE COMPANY’S PROPOSED CONSTRUCTION ALLOWANCE**  
18 **AMOUNTS COMPARE WITH OTHER GAS UTILITIES IN COLORADO?**

19 A. A summary of existing and proposed construction allowances for gas utilities in Colorado  
20 is shown in Table DNH-2.

1 **Table DNH-2 Construction Allowance Comparison Among Colorado Utilities**

<b>Gas Utility</b>	<b>Residential Construction Allowance</b>	<b>Small Commercial Construction Allowance</b>
BHCG (proposed)		
RA1	\$1,460	\$2,670
RA2	\$1,680	\$3,280
RA3	\$670	\$950
Atmos Energy	\$1,420	\$3,610
CNG	Mountain: \$7,329 Eastern: \$1,598	Mountain: \$3,501 Eastern: \$652
PSCo	\$549	\$1,121 + \$4.52/Dth
PSCo (Proposed in Proceeding No. 18AL-0862G)	\$808	\$9.46/Dth

2

3 **Q. WHY ARE THE EXISTING CONSTRUCTION ALLOWANCES FOR GAS**  
4 **UTILITIES IN COLORADO IMPORTANT?**

5 A. Similar territories supporting similar customers should have allowances that are  
6 comparable. The gas utility in Colorado that BHCG most closely resembles from a size,  
7 rates, and footprint is Atmos Energy. Many of the communities served by BHCG are  
8 neighbors to communities served by Atmos Energy.

9 **Q. ARE THERE ANY OTHER CHANGES TO THE COMPANY'S LINE**  
10 **EXTENSION POLICIES IN THE PROPOSED BHCG TARIFF?**

11 A. Yes, the Company proposes several changes to the line extension tariffs in order to provide  
12 additional clarity and implement a similar policy across Colorado. Attachment DNH-5  
13 provides a redline version showing the proposed changes from the current line extension  
14 tariffs and Attachment DNH-6 is the proposed tariffs. The proposed changes include  
15 adding definitions, adopting a single refund period and financing option, and elimination  
16 of the "Additional Regular Construction Allowance."



1 **Q. WHY HAS THE COMPANY ADDED DEFINITIONS TO THE PROPOSED LINE**  
2 **EXTENSION TARIFFS?**

3 A. The Company's proposed definitions are found on Sheet R40 in Attachment DNH-6. The  
4 purpose of these definitions is to help provide clarity regarding the Company's line  
5 extension policies.

6 **Q. PLEASE DESCRIBE THE TARIFF CHANGE MADE TO DEVELOP A SINGLE**  
7 **REFUND PERIOD.**

8 A. The proposed tariff changes the period during which refunds of an initial customer  
9 contribution payment will be made to applicants. The amount paid by an applicant for the  
10 construction costs of main line extensions has a refundable component to it when  
11 subsequent customers connect to the same extension. The refunds cannot exceed the total  
12 amount of the contribution paid in advance for construction. Under the existing tariff, the  
13 customer contribution is refundable for a three-year period in RA1 and RA2. The customer  
14 contribution is refundable for a ten-year period in RA3. BHCG is proposing to change the  
15 refund period to five years for all base rate areas as reflected in Paragraph 5 of Sheet No.  
16 R41 in Attachment DNH-6.

17 **Q. PLEASE DESCRIBE THE TARIFF CHANGE MADE TO DEVELOP A SINGLE**  
18 **FINANCING OPTION.**

19 A. Currently, the tariffs provide two separate options for the Company to finance line  
20 extensions. As demonstrated in Attachment DNH-4, Sheet Nos. R42-R43 provide a  
21 financing option for RA1 and RA2 described as the "Extra Construction Allowance."  
22 Sheet Nos. R44-R45 provide a slightly different financing option for customers in RA3  
23 described as the "Construction Payment Option." These financing options have differing

1 repayment terms, financing amounts, requirements, and interest rates. BHCG is proposing  
2 to implement one financing option, referred to as the Customer Contribution Payment  
3 Option, that is available for all base rate areas as reflected in Sheet Nos. R44-R45 in  
4 Attachment DNH-6.

5 **Q. PLEASE DESCRIBE THE CHANGE MADE TO ELIMINATE THE**  
6 **“ADDITIONAL REGULAR CONSTRUCTION ALLOWANCE.”**

7 A. The current tariffs have a different rate structure for the construction allowances in  
8 Colorado. The current rate structure of the construction allowance in RA1 and RA2 is the  
9 same for all customer classes. The rate structure in these two base rate areas has a fixed  
10 “Regular Construction Allowance” plus an “Additional Regular Construction Allowance”  
11 based upon the number of therms the customer is expected to use annually. The Additional  
12 Regular Construction Allowance for each additional therm above 757 therms for RA1 is  
13 \$2.40 per therm and 760 therms for RA2 is \$2.20 per therm.

14 Conversely, customers in RA3 seeking a line extension have only a “Regular  
15 Construction Allowance”, which is different for the customer classes. BHCG is proposing  
16 to eliminate the “Additional Regular Construction Allowance” and have one rate structure  
17 for the construction allowance that is specific to each customer class and base rate area.

18  
19 **V. RATE DESIGN**

20 **Q. PLEASE DESCRIBE HOW THE PROPOSED CONSTRUCTION ALLOWANCES**  
21 **ARE DIFFERENT FROM THE CURRENT TARIFF.**

22 A. The proposed construction allowances are different from the current tariff in the following  
23 ways:

- 1           1. The methodology used to determine the construction allowance.
- 2           2. The allowance for each customer class is specific to each class in each base rate
- 3           area.
- 4           3. The rate structure for the Large Commercial and Seasonal/Irrigation classes is
- 5           based upon an individual customer predicted annual use in dekatherms for the
- 6           distribution mains.
- 7           4. The increase in total cost of service for distribution capacity, distribution
- 8           commodity, and services since the current construction allowances were previously
- 9           approved.

10 **Q. PLEASE DESCRIBE THE STRUCTURE OF THE PROPOSED CONSTRUCTION**  
11 **ALLOWANCE.**

12 A. The Company is proposing a uniform rate structure for the three base rate areas with an  
13 allowance that varies by base rate area and customer class. The uniform structure would  
14 replace the two different customer construction allowance rate structures in the current  
15 tariff. Under the proposed allowance, the Residential and Small Commercial customers are  
16 provided a fixed amount that would be available to offset the cost of the construction of  
17 new service lines and mains. Under the proposed allowance, the Large Commercial and  
18 Seasonal/Irrigation customers would be provided with an amount for mains that is  
19 multiplied by the projected annual use measured in dekatherms. This uniform rate structure  
20 provides new customers with a simplified structure that is easier to understand and a  
21 construction allowance that is specific to each customer class and base rate area.

22           As discussed in Proceeding No. 21AL-0236G, there has been a significant amount  
23 of investment in plant in service with increases in the allocated cost of service for

1 distribution capacity, distribution commodity, and services. The increases in the cost of  
 2 service are reflected in the proposed construction allowance for each customer class.

3 **Q. WHAT IS THE CONSTRUCTION ALLOWANCE THE COMPANY IS**  
 4 **PROPOSING BY BASE RATE AREA AND CUSTOMER CLASS?**

5 A. Table DNH-3 below provides the Company’s proposed construction allowance for each  
 6 base rate area and customer class.

7 **Table DNH-3: Proposed Construction Allowance Amounts**

	Residential	Small Commercial	Large Commercial	Seasonal/Irrigation
Service Line	Fixed	Fixed	Fixed	Fixed
RA1	\$465.00	\$512.00	\$1,862.00	\$1,978.00
RA2	\$525.00	\$577.00	\$1,576.00	\$1,592.00
RA3	\$252.00	\$303.00	\$1,262.00	\$1,263.00

Distribution Main	Fixed	Fixed	Per Dth	Per Dth
RA1	\$996.00	\$2,158.00	\$9.21	\$4.53
RA2	\$1,151.00	\$2,704.00	\$11.73	\$5.79
RA3	\$418.00	\$647.00	\$3.64	\$1.36

8  
 9 The proposed customer construction allowance provides new customers with an  
 10 amount that is fair to existing customers while adding additional growth that is beneficial  
 11 to all customers on the system.

12 **Q. HOW DOES THIS STRUCTURE AND CONSTRUCTION ALLOWANCE**  
 13 **COMPARE WITH THOSE CURRENTLY IN EFFECT?**

14 A. The proposed customer construction allowance would result in a range of differing effects  
 15 in the total amount available to a new customer. An illustrative comparison of the total  
 16 construction allowance resulting from the two current structures to the proposed uniform

1 structure using the average annual customer use from the billing determinants approved in  
 2 Proceeding No. 21AL-0236G results in the following differences:

3 **Table DNH-4: Illustrative Comparison of the Current to Proposed Construction Allowance**

**Residential**

Rate Area	Current	Proposed	Change	% Change
RA1	\$1,443.83	\$1,461.00	\$17.17	1%
RA2	\$895.50	\$1,676.00	\$780.50	87%
RA3	\$550.00	\$670.00	\$120.00	22%

**Small Commercial**

Rate Area	Current	Proposed	Change	% Change
RA1	\$4,181.08	\$2,670.00	(\$1,511.08)	-36%
RA2	\$3,231.70	\$3,281.00	\$49.30	2%
RA3	\$686.00	\$950.00	\$264.00	38%

**Large Commercial**

Rate Area	Current	Proposed	Change	% Change
RA1	\$48,833.63	\$20,994.36	(\$27,839.27)	-57%
RA2	\$59,850.05	\$33,924.45	(\$25,925.60)	-43%
RA3	\$7,216.73	\$10,952.46	\$3,735.73	52%

**Seasonal/Irrigation**

Rate Area	Current	Proposed	Change	% Change
RA1	██████████	██████████	██████████	██████
RA2	\$13,777.93	\$5,442.80	(\$8,335.13)	-60%
RA3	\$2,654.22	\$3,210.75	\$556.53	21%

4

5 **Q. CAN YOU EXPLAIN THE LARGE CHANGES IN THE RESIDENTIAL**  
 6 **CONSTRUCTION ALLOWANCES?**

7 **A.** As referenced above, the current construction allowances were approved more than a  
 8 decade ago in 2008 and were based on different rate base and CCOSS's. Conversely, the

1 proposed construction allowances take into consideration the outcome of the most recent  
2 Phase II rate review, which was finalized a month ago. As stated above, the amounts shown  
3 for the construction allowances in Table DNH-4 are based upon the average use per  
4 customer for each customer class based upon the billing determinants in Proceeding No.  
5 21AL-0236G.

6 **Q. CAN YOU EXPLAIN THE LARGE CHANGES IN THE LARGE COMMERCIAL  
7 AND SEASONAL/IRRIGATION ALLOWANCES?**

8 A. The four changes described above produce some large reductions when the average annual  
9 use is applied to the Large Commercial and Seasonal/Irrigation customer classes. These  
10 amounts are merely illustrative and depend upon the annual use of each customer. The  
11 largest change in dollars is for the Seasonal/Irrigation customer class in RA1. The  
12 Company currently has only four customers in the class in RA1 and three of these  
13 customers are very large users on a seasonal basis and are not agricultural customers that  
14 use natural gas for irrigation. Like the other Seasonal/Irrigation customers in RA2 and  
15 RA3, any new customer connecting to the system in RA1 would receive an allowance  
16 based upon their annual use. A hypothetical new Seasonal/Irrigation customer in RA1 with  
17 a projected annual use of 588 dekatherms would be eligible for a construction allowance  
18 that would total \$1,978 for service line plus  $588 \times \$4.53 = \$2,663.64$  under the Company's  
19 proposal. This hypothetical customer could have a combined allowance of \$4,641.64.

20 **Q. PLEASE DESCRIBE HOW INCREASES IN THE CONSTRUCTION  
21 ALLOWANCE IMPACT EXISTING CUSTOMERS.**

22 A. The construction allowance calculation method uses the embedded average cost and other  
23 inputs from the last rate review to calculate the anticipated revenues that the Company

1 expects to receive from the new customer premise. These expected revenues match the  
2 construction allowance amount so that existing customers are not left to bear the costs for  
3 the added customer and, instead, the new investment is covered by the additional revenue  
4 that the new customer premise creates.

5 **Q. DO CHANGES IN THE AMOUNT OF THE CONSTRUCTION ALLOWANCE**  
6 **CAUSE RESIDENTIAL CUSTOMERS' FIXED MONTHLY CHARGE TO**  
7 **INCREASE?**

8 A. No. The construction allowance is designed such that investment costs relating to adding  
9 a new customer will not cause any increase in base rates, including the residential customer  
10 fixed monthly charge until a future Phase II proceeding.

11 **Q. ARE CONSTRUCTION ALLOWANCE COSTS COLLECTED THROUGH THE**  
12 **CURRENT CUSTOMERS' FIXED MONTHLY CHARGE?**

13 A. No. Some of the underlying investment costs represented by the construction allowance  
14 will be recovered through future fixed monthly charges. While an increase in the  
15 construction allowance would eventually result in a portion of the additional investment  
16 costs being included in the fixed monthly charge calculation in a future Phase II  
17 proceeding, the future revenues/determinants generated from that added customer will  
18 cover this additional investment cost over the life of the premise.

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes.

Appendix A

Statement of Qualifications

Douglas N. Hyatt

Mr. Hyatt graduated from Colorado State University with a Bachelor's degree in Political Science. Upon graduation, he received a commission as an Officer in the United States Air Force Reserve, and after serving on active duty was placed on inactive individual ready reserve status for the remainder of his service commitment.

Mr. Hyatt accepted a civilian position with the United States Department of State at Embassy Budapest, Hungary. After working for three years in Budapest, he returned to Colorado in 1993, and began working towards an MBA at the University of Colorado at Denver. During a portion of his two years of studies, Mr. Hyatt accepted a civilian position in Office Automation with the Defense Finance and Accounting Service in Denver, Colorado. Upon achieving his MBA in 1995, Mr. Hyatt accepted a position as a Telecommunications Analyst with AT&T Wireless in Denver.

In April 1996, Mr. Hyatt accepted a position as a Telecommunication Analyst with First Data Corporation located in Englewood, Colorado. In that capacity, he oversaw the auditing of telecommunications services expense as well as the impact upon the unit cost to the Company of various retail customer financial transactions. He led the effort to develop a database to enable network engineers to maintain network information, to streamline the auditing of network cost, and properly account for the costs incurred for multitude of internal and external customers.



In January 2001, Mr. Hyatt accepted a position as a Senior Specialist with AT&T. In this position, he championed regulatory initiatives to reduce or mitigate potential increases to expense, and supported state advocacy plans to ensure favorable State Public Utilities Commission rulings to reduce inter-carrier compensation expense. Mr. Hyatt testified before the Colorado Public Utilities Commission and drafted written testimony for submission to State Utilities Commissions. He assisted in the preparation of highly complex unit cost modeling for state regulatory proceedings throughout Qwest's 14 state territory. While at AT&T, Mr. Hyatt completed a Master of Applied Science Degree in Telecommunications at the University of Denver.

In November 2007, Mr. Hyatt accepted a position as a Lead Telecommunications Analyst with Qwest Communications. In this position, he played a lead role in auditing switched access expense to the Company. He played a role in the development of one of the largest private corporate databases in the World. During database development, he honed his expertise in compiling very large volumes of complex data into meaningful analytics for corporate decision makers.

Mr. Hyatt began his employment with Black Hills Corporation in June 2014, as Principal Regulatory Analyst. In this role, he has prepared and presented complex analyses and modelling for electric and gas utilities of Black Hills Corporation. He has prepared many studies and analyses in support of Company advocacy before the Colorado Public Utilities Commission, Wyoming Public Service Commission, Nebraska Public Service Commission, Kansas Corporation Commission, and Iowa Utilities Board in gas rate proceedings.

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO**  
**PROCEEDING NO. 22AL-\_\_\_\_G**

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**IN THE MATTER OF ADVICE LETTER NO. 16 FILED BY BLACK HILLS COLORADO GAS, INC. TO REVISE ITS LINE EXTENSION TARIFFS TO BE EFFECTIVE ON MARCH 7, 2022.**

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State of Colorado                    )  
  ) SS.           Affidavit Adopting  
City and County of Denver    )           Direct Testimony and Attachments

Douglas N. Hyatt being duly sworn, states that he is the Douglas N. Hyatt whose Direct Testimony and Attachments in the above-captioned proceeding accompany this Affidavit.

Douglas N. Hyatt further states that such Direct Testimony is a true and accurate statement of his answers to the questions contained therein, and that he does adopt those answers as his sworn Testimony in this proceeding. Douglas N. Hyatt further states that such Attachments that accompany his Direct Testimony are true and accurate.

  
\_\_\_\_\_  
Douglas N. Hyatt

Subscribed and sworn to before me this 12<sup>th</sup> day of January 2022.

ELAINE D HEGLER  
Notary Public  
State of Colorado  
Notary ID # 19984031852  
My Commission Expires 11-17-2022

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