

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: BLACK HILLS/IOWA GAS UTILITY COMPANY, LLC d/b/a/ BLACK HILLS ENERGY	DOCKET NOS. SPU-2015-0039, TF-2015-0352
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**ORDER PROVIDING NOTICE OF HEARING, ESTABLISHING PROCEDURAL
SCHEDULE, AND REQUIRING ADDITIONAL INFORMATION**

(Issued October 18, 2016)

PROCEDURAL BACKGROUND

On November 24, 2015, Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy (BHE), filed with the Utilities Board (Board) a request for approval of tariff and other relief, which BHE states is a "request for approval of tariffs that establish minimum safety standards for farm taps as a condition of service and creation of a mandatory testing program; utility replacement and ownership of customer-owned natural gas service lines; authorization for recovery of replacement capital costs; and request for an accounting order to defer testing costs until the company's next general rate case."

On December 10, 2015, the Office of Consumer Advocate (OCA), a division of the Iowa Department of Justice, filed an objection and requested that this matter be docketed for further investigation. The Board docketed this matter as Docket No. SPU-2015-0039 on December 23, 2015. On January 11, 2016, Northern Natural

Gas Company (Northern) filed a Petition to Intervene in Support and Comments pursuant to 199 IAC 7.13. The Board granted Northern's intervention on February 10, 2016.

BHE held customer focus groups in Webster City on February 11, 2016, Waukee on March 1, 2016, and Dike on March 3, 2016, to discuss the proposed plan. An informal workshop also took place on March 11, 2016, at the Board's offices in Des Moines.

On April 27, 2016, BHE filed a motion for leave to amend its application. BHE states that the amendment will present a proposal that reflects the input it received from the other parties and customers during the workshop and focus groups. On May 3, 2016, OCA filed a response to the proposed amendment, objecting to the application as amended. The Board granted the motion to amend the application in its order dated May 17, 2016. In that order, the Board also established a new intervention date of September 26, 2016. Six customer meetings were also held throughout the state between August 10 and September 20, 2016. No additional parties intervened by the September 26, 2016, deadline.

BHE FARM TAPS BACKGROUND

In its application, BHE explains that a "farm tap" is an outlet connected to an interstate pipeline consisting of a riser and valve. The riser is connected to the interstate natural gas pipeline and the interstate pipeline company normally owns certain aboveground assets that are downstream of the riser, including pressure

regulators to reduce the high pipeline pressure to the lower pressure necessary to serve the farm tap customer and a measurement meter. The farm tap customer normally owns all assets downstream of the pipeline tap assets, including a device to inject odorant into the natural gas stream and the fuel line, sometimes called the service line, to the premises. At the farm tap customer's facilities, whether a residence or other facility, another regulator reduces the pressure before the gas is consumed.

BHE explains that farm taps are usually granted to customers as part of an easement negotiated with an interstate pipeline company. BHE normally does not own assets at the site of farm taps, but it does provide services to farm taps pursuant to a 1987 agreement with Northern. BHE also has additional responsibilities for farm taps, depending on safety standards and state regulatory requirements. BHE serves the vast majority of farm taps off of Northern's pipelines in Iowa. BHE provided a map of the farm tap locations as Exhibit 1 to its application.

BHE asserts it cannot reliably establish the age, material, location, or maximum allowable operating pressure of the customer-owned fuel lines. BHE states that over 90 percent of the lines are not capable of being located for excavation and current farm tap customers often have little knowledge about the fuel lines. BHE technicians have also found leaks in pipe materials that do not meet current safety code requirements. BHE argues that its proposed program would

increase safety by requiring all farm tap lines to be able to be located and tested for leaks.

OCA OBJECTIONS

OCA's May 3, 2016, response raises several objections to the proposed plan to test and replace customer-owned service lines which are referred to as "farm taps" in this docket. OCA agrees that there are safety issues related to the installation and testing of farm taps. OCA's objections to the plan proposed by BHE to address these safety issues are as follows:

A. OCA believes that the Board extension rules at 199 IAC 19.3(10) should be followed for replacement of farm taps unless BHE receives a waiver of these rules from the Board.

B. OCA objects to the proposal for recovery of the costs associated with BHE's plans. Specifically, OCA objects to BHE being permitted to hold the costs in a regulatory asset account for inclusion in rates in BHE's next rate case and eventually being recovered from all general service customers.

C. OCA argues that BHE has not shown that its current rates are not sufficient to cover the operation and maintenance costs associated with the farm tap plan. OCA presented its calculations of BHE returns on equity for the past three years.

D. OCA argues that approval of the farm tap plan would constitute single issue ratemaking and violate established rate making principles. According to OCA,

the farm tap proposal would allow BHE to recover 100 percent of the costs associated with the farm tap plan and this is not consistent with regulatory principles.

BOARD ANALYSIS

The Board finds that there are outstanding questions of law and fact in this docket which require further investigation and deliberation. The Board will therefore set this matter for hearing and establish a procedural schedule as set forth below in the ordering clauses. At the beginning of the evidentiary hearing, the Board will allow time for potentially-affected customers to have the opportunity to provide comments about the proposals to the Board. The Board is establishing in this order a procedural schedule including dates for pre-filing testimony and exhibits. Parties will be provided an opportunity to cross-examine each witness at the hearing.

After its preliminary review of the current record, the Board has some additional questions for BHE and will require BHE to provide additional information in response to the questions. These questions and information requests are found in Attachment A to this order. The Board also believes it is important that customer questions from the various comment meetings throughout the state be answered on the record. These questions from customers are found in Attachment B to this order. The Board will require BHE to respond to all questions and information requests contained in the two attachments within 14 days of the date of this order.

If the parties to this proceeding reach a settlement that resolves any of the contested issues, the settlement must comply with the provisions of 199 IAC 7.18.

If a unanimous settlement is reached among the parties, the Board is required to consider whether the “settlement is reasonable in light of the whole record, consistent with law, and in the public interest.” In addition, 199 IAC 7.18(1) requires that a motion for the Board to approve a settlement contain a statement adequate to advise the Board of the scope of the settlement and the grounds on which adoption is requested. Non-unanimous settlements must follow the procedures described in 199 IAC 7.18(2-5).

To ensure the Board has the necessary evidence in the record in this docket to fulfill the requirements of the rule, the parties to any unanimous settlement in this docket shall either cite to those portions of the record that support the terms of the settlement or provide the Board with additional evidence to support the terms of the settlement. The Board understands that the negotiations between the parties are confidential and not admissible by Board rule and Iowa R. Evid. 5.408; however, this does not preclude the Board from requesting additional information about the terms of a settlement.

Based upon a review of the terms of a settlement, the record, and any additional information requested by the Board, a settlement may be approved as filed, rejected, or the Board may approve the settlement with modifications that will then need to be considered by the parties. If modifications are made by the Board to a settlement, the signatory parties will be given the opportunity to either accept the

modifications or to have those issues not accepted presented to the Board at a hearing.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The following procedural schedule is established:
 - a. Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy shall file prepared direct testimony and exhibits in support of the application on or before Monday, November 7, 2016.
 - b. The Office of Consumer Advocate, a division of the Iowa Department of Justice, and any intervenors may file prepared testimony on or before Friday, December 2, 2016.
 - c. Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy may file rebuttal testimony on or before Thursday, December 15, 2016.
 - d. The parties shall provide a joint statement of the issues on or before Wednesday, December 21, 2016.
 - e. A hearing shall be held beginning at 9 a.m. on Thursday, January 12, 2017, for the purpose of receiving customer comments and documentary evidence into the record as well as conducting the cross-examination of all witnesses. The hearing shall be held at Hearing Room in the IUB-OCA Building at 1375 East Court Avenue, Des Moines, Iowa, 50319-0069. The parties shall appear one-half hour prior to the time of the

hearing for the purpose of marking exhibits. Customers wishing to provide comments to the Board shall be present prior to the start of the hearing at 9 a.m. Persons with disabilities requiring assistive services or devices to observe or participate should contact the Board at (515) 725-7334 at least five days in advance of the scheduled date to request that appropriate arrangements be made.

f. All parties and intervenors may file simultaneous briefs on or before Thursday, January 26, 2017.

2. Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy shall file responses to the questions and information requests attached to this order within 14 days of the date of this order.

UTILITIES BOARD

/s/ Geri D. Huser

/s/ Elizabeth S. Jacobs

ATTEST:

/s/ Trisha M. Quijano
Executive Secretary, Designee

/s/ Nick Wagner

Dated at Des Moines, Iowa, this 18th day of October 2016.

Attachment A
Board Questions & Information Requests

General/Overview

1. Does BHE have a proposed procedure for addressing disputes with farm tap customers?
2. Provide a brief history of the rates that BHE has charged farm tap customers.
3. What is the estimate of the average investment per farm tap customer both before and after implementation of the proposal, and how does that compare to BHE's average investment per customer that will be paying the same rate(s) as the farm tap customers?
4. Does the Board have statutory authority to order/allow the discontinuation of service to a farm tap customer?
5. How will BHE determine where a line will be installed, if a new location is required?
6. How does BHE plan to apply this proposal to farm taps that may be abandoned by Northern Natural Gas?

Maximum Allowable Operating Pressure (MAOP) Testing

1. What method will BHE follow for the MAOP pressure tests?
2. How will BHE address the loss of service during the testing process and what arrangements will be made with the customer?
3. If the line leaks or fails during the test, who is responsible for repair of the line?

Installation Costs

1. What is the basis for BHE's estimated installation cost of \$10 per lineal foot?
2. What will BHE do if it encounters a situation where the installation cost is significantly greater than the estimated \$10 per lineal foot?
3. What is the basis for the \$5 per lineal foot price that BHE is proposing to pay to customers for lines that are less than five years old and pass the MAOP test?

Provide the Following Data for Each Farm Tap Customer in an Excel Spreadsheet:

a. Identifying Customer Information

- i. Name;
- ii. Address;
- iii. City;
- iv. State; and
- v. Identify State-owned facilities.

b. Line Length / Overlap

- i. Indicate the estimated line length from the meter at the tap to the customer's regulator(s) at their premise.
- ii. If multiple customers are serviced off of one interstate pipeline meter (tap), provide a notation to identify which customers are part of a particular common service grouping, and indicate which lines are primary and which are secondary for each grouping. (Primary means the customer's line taps directly into the pipeline. Secondary means the customer's line taps directly into another customer's line.)
- iii. Indicate whether the customer's line begins at the interstate pipeline meter (tap) or downstream of the interstate pipeline meter (tap).

c. Annual Consumption for Calendar Year 2015

- i. Indicate the applicable unit of measure (i.e. Dth or Therms).

d. Tariff / Service Information

- i. The tariff applicable to each customer (i.e. Rate Schedule GS-1 / sheet number 98; Rate Schedule SVJ-1 – sheet number 100, etc.);
- ii. The customer's rate classification (i.e. residential, commercial, industrial, small volume transportation, etc.); and
- iii. Type of service (i.e. firm, interruptible, etc.).

e. BHE's Current Knowledge of Existing Farm Tap and Customer Line

- i. Installation date;
- ii. Current condition;
- iii. Material.

Attachment B
Customer Questions

Procedural Questions

1. What is BHE's requested start date? Once started, what is the proposed project schedule including the estimated completion date?
2. How did BHE come up with the two proposals: 1) 1,000 ft. at no cost or 2) entire line replacement with cost sharing?
3. How will this work for easements over properties that have been split into multiple parcels?
4. What is the percentage of lines that are over 1,000 ft.?
5. Who determines whether BHE pays the full cost of any replaced lines or whether BHE only pays for 1,000 ft.? If it is determined that BHE will pay for 1,000 ft. of each line that is replaced, how will that affect the owners of any lines that are over 1,000 ft.?
6. Do farm taps currently have GPS coordinates? Can public safety officials have access to the coordinates so that emergency responders know where a line is in emergency situations?
7. If a customer has already replaced his or her line and paid a substantial amount out of pocket, will BHE compensate the customer? If so what will be the amount of the compensation? If not, will that be a loss to the customer once BHE takes over the line?
8. Why does BHE want to take lines away from the customers if they are the customers' responsibility and the customers have taken care of them for the last 30 years?
9. How is it fair to require customers to pay to replace farm tap lines when someone else is getting the benefit?

Program Questions

1. How often will BHE test the lines?
2. How will BHE locate the line?
3. If a line doesn't have tracer wire, do they need to be replaced or can the customer run a tracer wire for the existing line if he or she knows its location?
4. What types of pipe are acceptable and considered to be in good working condition? What type of pipe will BHE be using for line replacements?
5. What is prompting BHE to want to take ownership of customer lines?
6. How many farm taps are affected in Iowa?
7. How does BHE know whether customer lines are bad?
8. Can someone run a new line off the tap if they wish to do so?
9. How many lines under 1,000 ft. does BHE estimate need to be replaced?
10. Does this proposal affect more residential lines or farmland lines?
11. Will BHE replace the regulator that comes off the tap as part of this proposal?
12. Can the replacement line address property design changes?
13. Would BHE be willing to run a second line to an adjacent property where a customer's land has been subdivided?
14. If a customer currently has a residential line but would like a second line run to a large grain dryer, could that be handled in this proposal?
15. If BHE replaces the line, will they also replace the meter?
16. BHE's proposal states that it will be pumping the pressure up to 100 lbs. How is that possible when the lines are less than 18 lbs. at the outlet?
17. Why does BHE prefer to limit line replacements to 1,000 ft. rather than the entire length of the line?
18. Is there a line extension option for customers who have already replaced their lines?

Rate Questions

1. How does the potential \$1 per month rate increase benefit elderly customers living on fixed incomes who are struggling to pay their bills currently?
2. Will BHE collect the proposed cost over five years?
3. Will the cost of this proposal be recovered through a temporary or permanent surcharge?
4. How often are BHE's rate reviews conducted?
5. For an apartment complex, would the surcharge be \$1 per month for the entire complex or \$1 per month per customer?
6. When will customers pay for this proposal, right away or later?
7. Why should all customers have to pay \$1 per month for something that does not benefit them?
8. If my line is less than 1,000 ft. is this proposal free to me?