

Direct Testimony
Kent J. Kopetzky

Before the South Dakota Public Utilities Commission
of the State of South Dakota

In the Matter of the Application of
Black Hills Power, Inc., a South Dakota Corporation

For Authority to Increase Rates
in South Dakota

Docket No. EL14-___

March 31, 2014

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Exhibits

None

1 I. INTRODUCTION AND QUALIFICATIONS

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

3 A. My name is Kent J. Kopetzky. My business address is 1102 East 1st Street,
4 Papillion, NE, 68046.

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

6 A. I am currently employed as Senior Manager, Gas Supply Services for Black Hills
7 Utility Holdings, Inc., (“BHUH”), which is a wholly-owned subsidiary of Black
8 Hills Corporation (“BHC”). Gas Supply Services is a department within BHUH.
9 Gas Supply Services is responsible for providing natural gas to regulated utility
10 business units of BHC, including Black Hills Power (“Black Hills Power” or
11 “Company”).

12 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

13 A. I am testifying on behalf of Black Hills Power.

14 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.**

15 A. I obtained a Bachelor of Journalism degree in Broadcasting from the University of
16 Nebraska-Lincoln in 1993. I have attended several utility industry conferences
17 and workshops throughout my career in the utility industry. In addition to that
18 ongoing work-specific education, I have also attended numerous conferences,
19 meetings, and informal training sessions provided by interstate pipelines and
20 natural gas suppliers providing natural gas products or services to the Company,
21 and I was selected to be a member of the Gas Buyers Panel at the 2011
22 Midcontinent LDC Gas Forum.

1 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

2 A. I joined BHUH as Manager, Gas Supply Services on July 16, 2008, and was
3 appointed Senior Manager, Gas Supply, in September 2012. Prior to joining BHC,
4 I served in multiple gas supply positions with Aquila, Inc. and its predecessor
5 companies. For example, in 2006, I was appointed by Aquila, Inc. as Manager,
6 Gas Supply Services.

7 I also served as a regulatory analyst in various positions, including preparation of
8 gas supply cost adjustment compliance filings. I have over fifteen (15) years of
9 experience in the utility industry with the majority of that experience in the area of
10 procuring and managing natural gas supply, interstate transportation, and storage
11 of natural gas for both natural gas and electric utilities. I coordinate my activities
12 and responsibilities with other Gas Supply Services staff, including our portfolio
13 and natural gas dispatching managers, to provide the Company's regulated utilities
14 and their customers with reliable sources of natural gas.

15 Specifically, my work experience covers pipeline nominations, daily and monthly
16 gas purchasing, and the development and support of natural gas requirements of
17 natural gas fired power plants for BHC's regulated utilities.

18 **II. PURPOSE OF TESTIMONY**

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

20 A. I will discuss the natural gas supply, pipeline capacity, and other fuel cost for the
21 Cheyenne Prairie Generating Station project (hereafter "Cheyenne Prairie
22 Generating Station" or "CPGS"). Gas Supply Services is responsible for

1 arranging and managing the gas supply and pipeline capacity needed by the CPGS
2 facilities.

3 The CPGS facilities are being constructed near Cheyenne, Wyoming to provide
4 electricity to customers of Cheyenne Light, Fuel and Power Company ("Cheyenne
5 Light") and Black Hills Power. This testimony will describe the actions taken by
6 Black Hills Power or Gas Supply Services to ensure that natural gas is available at
7 the CPGS facilities on those days when it is economical to generate electricity at
8 CPGS for the customers of Black Hills Power and will address and support the
9 natural gas fuel costs associated with generating that electricity.

10 **Q. DID YOU PREPARE ANY EXHIBITS IN SUPPORT OF YOUR DIRECT**
11 **TESTIMONY?**

12 **A. No.**

13 **III. CPGS GAS SUPPLY**

14 **Q. WHAT RECENT ACTIONS WERE UNDERTAKEN TO SERVE CPGS**
15 **WITH NATURAL GAS?**

16 **A.** Upon direction from Black Hills Power and Cheyenne Light, Fuel and Power
17 Company ("Cheyenne Light"), Gas Supply Services solicited construction and
18 transportation offers from multiple interstate natural gas transportation pipelines as
19 part of Black Hills Power's natural gas supply planning for CPGS. Three bids
20 were received in response to the solicitation. After further evaluation of the costs
21 and benefits included within the various bids, Southern Star Central Gas Pipeline
22 ("Southern Star") was selected as the interstate pipeline transportation provider for

1 CPGS. Southern Star built interconnecting facilities and a four mile lateral from
2 its Rawlins-Hesston line in Colorado to an interconnection point with the
3 Company's CPGS Pipeline¹, just north of the Wyoming – Colorado state line.

4 Pursuant to a Certificate of Public Convenience and Necessity ("CPCN") granted
5 by the Wyoming Public Service Commission in Docket Nos. 20002-81-EA-11 and
6 20003-113-EA-11 (Record No. 13007), Cheyenne Light and Black Hills Power
7 are constructing the CPGS Pipeline, which originates at the Southern Star
8 interconnection point just north of the Wyoming – Colorado State line and East of
9 HWY 85 running to the North to CPGS.

10 **Q. WHICH NATURAL GAS SUPPLIERS WILL PROVIDE THE GAS**
11 **SUPPLY THROUGH SOUTHERN STAR AND THE CPGS PIPELINE?**

12 A. There are currently no gas supply transactions in effect for gas supply through
13 Southern Star and the CPGS Pipeline. Gas Supply Services will procure gas
14 supplies in the future from a variety of natural gas suppliers as requested or as
15 needed by Black Hills Power (i.e., electric generation or natural gas service) or
16 Cheyenne Light.

17 Gas Supply Services has previously entered into industry-standard natural gas
18 supply agreements with various natural gas suppliers (e.g., North American
19 Energy Standards Board Agreement or NAESB). When Generation Dispatch and
20 Power Marketing Department ("GDPM"), acting as agent for Black Hills Power or

¹ The CPGS Pipeline is a high pressure natural gas pipeline that is approximately ten and one-half (10.5) miles in length and twelve (12") inches in diameter that connects Southern Star to CPGS.

1 Cheyenne Light determines that a package of gas supply is needed to provide
2 natural gas to CPGS, then Gas Supply Services will enter into specific
3 negotiations with an existing supplier and thereafter execute a "Transaction
4 Confirmation" with that natural gas supplier to deliver the package of natural gas
5 at a receipt point on Southern Star in the agreed-upon quantities and at the agreed-
6 upon price.

7 Gas Supply Services, acting as agent for Black Hills Power or Cheyenne Light
8 will enter into additional NAESB agreements if needed to obtain gas supply from
9 a particular natural gas supplier with which it does not already have an existing
10 contractual relationship. The NAESB does not require any minimum
11 consumption, and Gas Supply Services acting as agent for either Black Hills
12 Power or Cheyenne Light will enter into specific gas supply transactions as
13 identified by GDPM acting as agent for CPGS when gas is needed for CPGS.

14 The primary receipt point on Cheyenne Light's Firm Transportation agreement
15 with Southern Star is Echo Springs, a Rockies point upstream of the CPGS
16 interconnection which has historically enjoyed strong liquidity. Therefore, Gas
17 Supply Services, as agent, will procure supply on a seasonal, monthly, and daily
18 basis from reputable suppliers as needed for Black Hills Power at CPGS to
19 generate power for its electric customers, or for Cheyenne Light at CPGS to
20 generate power for its electric customers.

1 **Q. WHEN WILL NATURAL GAS BE AVAILABLE AT CPGS?**

2 A. As discussed in more detail below, the contract for firm interstate natural gas
3 pipeline transportation capacity on Southern Star begins on October 1, 2014.
4 CPGS Pipeline and Southern Star construction is expected to be completed prior to
5 the start of CPGS testing in the summer of 2014. Thus, in addition to firm
6 interstate transportation capacity, Cheyenne Light also entered into an interruptible
7 interstate transportation capacity agreement with Southern Star for deliveries prior
8 to October 1, 2014. That agreement does not require any minimum quantity use
9 so it is available to be used as needed. As noted above, natural gas supply
10 commodity is readily available on Southern Star. Thus, Gas Supply Services
11 acting on behalf of either Black Hills Power or Cheyenne Light can enter into gas
12 supply transactions for amounts needed to commence at that same time in the
13 amounts identified by managers of CPGS.

14 **IV. SOUTHERN STAR TRANSPORTATION AGREEMENTS**

15 **Q. WHAT ARE THE TERMS FOR THE INTERSTATE PIPELINE**
16 **TRANSPORTATION AGREEMENT WITH SOUTHERN STAR?**

17 A. The interstate pipeline Firm Transportation Agreement is between Cheyenne Light
18 and Southern Star. The Firm Transportation Agreement and the Interruptible
19 Transportation agreements with Southern Star are standard Southern Star tariff
20 agreements. The rates, terms, and conditions of service under those interstate
21 transportation agreements are regulated by the Federal Energy Regulatory
22 Commission (“FERC”). The Firm Transportation Agreement is a maximum tariff

1 rate agreement for 10,000 Dth per day. The Interruptible Transportation
2 Agreement is at a discounted rate. The Firm Transportation Agreement
3 commences on October 1, 2014 and will continue for seven years and seven
4 months, expiring May 1, 2022, with a right of first refusal option to extend the
5 term. The Interruptible Transportation Agreement goes into effect January 1,
6 2014 and therefore will be available for use during testing at CPGS.

7 **Q. HOW WILL THE INTERSTATE PIPELINE TRANSPORTATION**
8 **CAPACITY AND GAS SUPPLY REQUIREMENTS BE MANAGED?**

9 A. Gas Supply Services, as agent for Black Hills Power and Cheyenne Light, will
10 manage the use of the Southern Star interstate transportation capacity, and will
11 enter into an Asset Management Agreement (“AMA”), interstate pipeline
12 transportation capacity release agreements, Inter-Corporate Services, Agency, or
13 make other arrangements with Black Hills Power and Cheyenne Light to fully
14 manage this interstate pipeline transportation capacity on behalf of Black Hills
15 Power and Cheyenne Light. Under similar agreements, Gas Supply Services will
16 also manage the procurement of natural gas supply for Black Hills Power and
17 Cheyenne Light, creating separate natural gas pools for each entity to ensure that
18 each entity is allocated the appropriate commodity costs.

19 **Q. IS THE LEVEL OF FIRM INTERSTATE PIPELINE CAPACITY**
20 **ADEQUATE?**

21 A. Yes. However, as noted above, in addition to the interstate pipeline Firm
22 Transportation Agreement, Gas Supply Services acting on behalf of Black Hills

1 Power and Cheyenne Light has arranged for a discounted Interruptible
2 Transportation contract if CPGS consumes more than 10,000 Dth of natural gas in
3 a given day. As noted above, Gas Supply Services will obtain transportation for
4 Black Hills Power through an AMA, or obtain interruptible transportation in Black
5 Hills Power's name as appropriate or necessary.

6 **V. OTHER GAS SUPPLY ARRANGEMENTS**

7 **Q. WILL HEDGES OR OTHER FINANCIAL DERIVATIVE**
8 **ARRANGEMENTS BE USED?**

9 A. Hedges and other financial derivatives will be used if market conditions indicate
10 that it would be prudent to enter into such arrangements.

11 **Q. WILL STORAGE BE ACQUIRED FOR CPGS?**

12 A. There are several reasons why storage will not be purchased for CPGS at this time.
13 Unlike many other pipelines, Southern Star does not currently charge daily out-of-
14 balance fees, so storage is not needed to avoid daily balancing penalties. Also, as
15 noted earlier, the primary receipt point on the Firm Transportation contract has
16 historically been very liquid so supply should be easily attained. Finally, Southern
17 Star currently has virtually no open storage capacity.

18 **Q. WILL BLACK HILLS POWER PURCHASE NATURAL GAS SUPPLY**
19 **FOR CPGS THAT IS PRODUCED LOCALLY?**

20 A. No. Currently, the natural gas obtained for use at CPGS will be obtained through
21 Southern Star.

1 **VI. CONCLUSION**

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

3 **A. Yes.**

