

SECRETARY'S RECORD, PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Commission,) Application No. NG-119
to conduct a review of gas)
supply cost adjustment schedules)
implemented by Black Hills) ORDER CLOSING REVIEW AND
Nebraska Gas, LLC d/b/a Black) ADOPTING THE FINDINGS OF
Hills Energy, Rapid City, South) THE AUDIT REPORT
Dakota, pursuant to Neb. Rev.)
Stat. § 66-1854.)
) Entered: December 12, 2023

BY THE COMMISSION:

On March 7, 2023, the Commission opened this docket on its own motion in order to conduct a review of gas supply cost adjustment schedules implemented by Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy ("Black Hills"), Rapid City, South Dakota, pursuant to Neb. Rev. Stat. § 66-1854. A petition for Formal Intervention by the Nebraska Public Advocate ("PA") was approved by the Commission on March 15, 2023. No other parties intervened in this docket.

Notice of the hearing was published in The Daily Record on April 14, 2023. The management review portion of the audit was conducted by the firm Bates White, LLC and the financial and accounting review was conducted by the firm Horne, LLP, which was operating as a subcontractor of Bates White, LLC (Collectively referred to as "Commission Consultants"). On August 28, 2023, the Commission Consultants filed both the Management Review Audit Report and the Financial and Accounting Review Audit Report (Collectively referred to as the "Consultant Reports") with the Commission. Black Hills and the PA were given an opportunity to review the Consultant Reports. The PA filed a response to the Consultant Reports on September 26, 2023, and Black Hills filed a response to the Consultant Reports on September 28, 2023.

A hearing was held on November 7, 2023. Mr. Douglas J. Law, associate general counsel for Black Hills, appeared on behalf of Black Hills; Mr. William Blake appeared on behalf of the Public Advocate; and Mr. Jonathan Smith and Ms. Nichole Mulcahy appeared on behalf of Commission staff.

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EVIDENCE

During the hearing, Commission Staff presented the results of the Consultant Reports. Commission Staff called Mr. Vincent Musco, Partner at Bates White Economic Consulting ("Bates White"), to testify regarding both reports. Mr. Musco began his testimony by summarizing the financial and accounting audit report. He stated that Horne, LLP reviewed the gas supply adjustment schedules implemented by Black Hills from January 1, 2020, through December 31, 2022. Mr. Musco described how Horne, LLP sampled over 190 accounting transactions and identified no errors specific to those transactions. The review also identified no discrepancies in Black Hills' written policies and procedures. Furthermore, Black Hills' accounting department appeared to exercise appropriate oversight and maintain reasonable systems to ensure proper accounting for its gas supply and transportation costs and revenue reporting.¹

Mr. Musco then turned his attention to summarizing the results of the management review portion of the Consultant Reports. Mr. Musco reported that Bates White found no serious issues or concerns in its review. He stated that Black Hills had well documented processes that were followed by the company. Mr. Musco also stated that Black Hills employed widespread use of competition to get better outcomes for customers, and that Black Hills used reasonable procurement and hedging strategies.²

Mr. Musco then discussed the four substantive chapters of the management review report, beginning with section one regarding staffing, organization, and control. Mr. Musco reported overall positive findings regarding Black Hills' organizational structure, staffing, risk management processes, documentation, and results. Bates White's review identified an external consulting report commissioned by Black Hills that contained several recommendations for Black Hills to consider, some of which, Mr. Musco noted had already been adopted by Black Hills. He stated that Bates White recommended that Black Hills complete its consideration of that report and seek to implement those recommendations that are in the customer's best interest.³

¹ Hearing Transcript at 12:4-13:9.

² *Id.* at 13:24-14:13.

³ *Id.* at 16:11-17:9.

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Mr. Musco then discussed the next portion of the report, which addressed planning and forecasting. He stated that Black Hills used reasonable forecasting approaches for natural gas consumption and utilization. Bates White found that Black Hills adequately monitored its forecast performance and implemented a reasonable approach to long-term strategic planning. Mr. Musco provided two recommendations for Black Hills' consideration in this section. First, Bates White recommended that Black Hills consider using the coldest winter experienced over the prior 30 to 40-year period for planning purposes. Mr. Musco clarified that Black Hills' current approach was not unreasonable, but that the recommendation was simply to offer a commonly used alternative that may be more strict than Black Hills' current approach. Second, Bates White recommended that Black Hills consider implementing an integrated resource planning process for its gas utility division to assist in determining the risks, benefits, and costs of future scenarios.⁴

The next section of the report addressed Black Hills' procurement strategies. Bates White found that Black Hills employed widespread use of RFPs and competition in its procurement. In its review, Bates White identified no concerning procurement results, and noted a large number of counterparties involved, none of which held an excessive market share. Bates White offered one recommendation, that Black Hills consider formalizing and quantifying its processes for determining storage ejections and withdrawal timing and volume levels.⁵

Mr. Musco then moved on to the final chapter of the report, which addressed Black Hill's hedging strategies. Mr. Musco again reported positive results, finding that Black Hills used reasonable and defined objectives and maintained a well-documented approach to hedging that produced reasonable results throughout the audit period. Mr. Musco then offered five recommendations related to hedging to Black Hills and the Commission for future audits. First, future audits should consider including a complete assessment of Black Hills' target hedge percentage. Second, Black Hills should consider seeking call and put options from counterparties that specialize in such products. Third, Black Hills should consider seeking to hedge natural gas supply basis risk. Fourth, Black Hills should consider using a volatility measure to assess the effectiveness of its hedging activities.

⁴ *Id.* at 17:10-18:16.

⁵ *Id.* at 18:17-19:8.

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Finally, Black Hills should consider alternatives to a strict adherence to relying on non-hedged volumes for summer storage injections.⁶

Following Mr. Musco's testimony, Black Hills called Mr. Kent Kopetzky, Senior Manager of Gas Supply Services for Black Hills North Region, to testify regarding Black Hills' response to the Consultant Reports. Mr. Kopetzky began his testimony by stating that Black Hills appreciated the thorough investigation, review, and analysis that was conducted by Bates White and Horne, LLP on behalf of the Commission. He then went on to summarize Black Hills' filed response to the Consultant Reports, stating that Black Hills acknowledged its general understanding and agreement with the presentation of the conclusions and recommendations set forth in the Management Report.⁷ Further, many of the recommendations were already underway and Black Hills agreed to duly consider the other recommendations in the Consultant Reports. In closing, Black Hills stated that its full comments regarding the Commission Consultant's recommendations could be found in its filed response, marked as Exhibit No. BHE-1.

Following Mr. Kopetzky's testimony, the Public Advocate called Ms. Donna Mullinax and Mr. Howard Solganick to offer comments regarding the Consultant Reports. Both witnesses shared the PA's general approval of the audit process and stated that its two initial concerns had been adequately addressed. The witnesses also referenced that the PA had several suggestions for future audits which were included in its filed response, marked as Exhibit No. PA-1, for the Commission's consideration.⁸ Following the PA's testimony, no further witnesses were called, and the hearing was adjourned.

FINDINGS AND OPINION

Pursuant to the Commission's general grant of authority and its power to audit, the Commission initiated a review of the gas supply cost adjustment schedules implemented by Black Hills.⁹

In its Financial and Accounting Audit Report, the Commission Consultants conducted a thorough analysis of the significant

⁶ *Id.* at 19:9-20:20.

⁷ *Id.* at 24:2-27:24.

⁸ *Id.* at 29:2-32:2.

⁹ Neb. Rev. Stat. §§ 66-1804, 66-1818, and 66-1854.

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processes impacting gas supply costs based on a review of gas cost adjustment filings submitted by Black Hills during the period of January 1, 2020, to December 31, 2022. They identified no discrepancies in Black Hills written policies and procedures. The Commission Consultants further found that Black Hills appeared to exercise appropriate oversight and maintain reasonable systems to ensure proper accounting for its gas supply and transportation costs and revenue reporting. The Commission Consultants made no recommendations for any changes or alterations to Black Hills' policies and procedures based on their review.

With respect to the Management Review Audit Report, the Commission Consultants reviewed the prudence, risk, and administration of natural gas purchases, as well as an informal review of Black Hills' gas supply cost adjustment and its processes, procedures, and general approach to natural gas supply, transportation procurement, and hedging. The Commission Consultants found no material violations or concerns associated with Black Hills' organization nor the implementation of risk management policies during the audit period. The Management Review Audit Report contained several conclusions and offered recommendations for the consideration of Black Hills and for the Commission to consider regarding future audits.¹⁰ These recommendations can be found in greater detail above, in the evidence section of this order.

The Commission recognizes the effort and expertise employed by its consultants, Bates White and Horne LLP, in conducting a thorough examination of Black Hills' accounting and management procedures. The Commission also appreciates the careful review conducted by Black Hills and the Public Advocate in their review of the Consultant Reports as well as their participation at the hearing. The PA's response to the Consultant Reports was generally positive, however, it contained several recommendations to the Commission regarding the scope of any future audits the Commission would conduct in the future. The Commission acknowledges the suggestions put forth by the PA and commits to carefully review the suggested recommendations for subsequent audits. At the hearing, both Black Hills and the PA stated that the Commission Consultants conducted a thorough investigation, review, and analysis of the gas supply cost adjustment schedules implemented by Black Hills.

¹⁰ See NG-119, Hearing Exhibit #8 at pages 6-8.

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Based upon the foregoing and Black Hills and the PA's agreement on the record, the Commission finds that the recommendations set forth in the Consultant Reports are reasonable and in the public interest and should therefore be adopted.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the conclusions and recommendations as set forth in the Consultant Reports be, and are hereby, adopted.

IT IS FURTHER ORDERED that the Commission's review of gas supply cost adjustment schedules filed by Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy, Rapid City, South Dakota, is completed and is therefore closed.

ENTERED AND MADE EFFECTIVE at Lincoln, Nebraska, this 12th day of December, 2023.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:






Chair

ATTEST:


Executive Director