Black Hills Energy

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September 17, 2018

Mr. Mike Hybl, Executive Director
Nebraska Public Service Commission
1200 N Street, Suite 300
Lincoln, NE 68508

Re: Farm Tap Safety Proposal Docket No. NG-0090 – Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy, Annual Report and Request of Approval of the Upcoming Year's Expenditures and True-up of Both Spending and Revenues Collected.

Dear Mr. Hybl:

In accordance with the Commission's Order entered on August 22, 2017 in Docket No. NG-0090, Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy ("Black Hills Energy") hereby submits its Annual Progress Report based on the Implementation Plan and requests approval of the upcoming years' expenditures and true-up of both spending and revenues collected for the time period October 1, 2017 to July 31, 2018, included as Exhibits A & B to this filing.

Black Hills Energy also submits for filing with the Nebraska Public Service Commission ("Commission") Tariff Sheet No. 41

By this Application, Black Hills Energy is proposing to adjust the Farm Tap Surcharge by customer class to reflect the projected Year 2 Capital expenditure level plus a true-up of both spending and revenues collected.

Year One Progress:

The start of the Farm Tap Safety Project was delayed due to several factors primarily heavy rainfall. The Implementation Plan indicated that in the Fall of 2017, during the "learning period" approximately 50-100 customers would be identified and used to develop the processes for this project. The Implementation Plan also indicated that 50-100 fuel lines would be replaced during this same period. As of July 2018 Black Hills Energy has replaced 63 fuel lines and purchased 7 fuel lines.

663 farm taps have been identified by Black Hills Energy as of July 2018. This is 30 more than what was presented in the Nebraska Farm Tap Tracker Implementation Plan. Of the 663 farm taps identified by Black Hills Energy:

- 63 have been replaced, and 7 purchased at an average cost of $8,950
- 84 have been identified for possible purchase
- 120 are in process to be scheduled for replacement and 25 have been delayed due to crops
- 301 identified by partial inspection as needing replaced with 69 impacted by crops that will affect scheduling
- 81 Impacted by Northern Natural Gas Company's A-Line abandonment, and one is scheduled to be converted over to Black Hills' distribution system
- 7 are non-active

Black Hills Energy expects to replace or purchase between 160-180 lines over the remainder of 2018. Exhibit C included with this filing is a Customer Master List with the status of the 663 farm taps as of July 2018. In summary, Black Hills Energy has completed line evaluations and is close to its planned replacement schedule.

Year One Challenges:

Black Hills Energy experienced both challenges and positives during the first year of the Farm Tap Safety Project. In general, the "learning period" took longer than anticipated, and work began later than expected due to a delay in plan approval. The lessons learned over the first year have put Black Hills Energy in a better position to replace or purchase the remaining fuel lines within the remaining twenty six months of the project.

The total number of fuel line replacements and purchases was lower than anticipated in the Implementation Plan due to several factors.

The first delay was related to the May 15, 2017 Order Continuing Hearing to July 25, 2017. This was to allow for public meetings to answer customer questions. The project could not be started until final approval was received on August 22, 2017. Implementation of the Farm Tap Safety Plan did not start until October 2017. This late start put Black Hills behind the intended 2017 schedule, and we were not able to begin performing our initial field survey until the late fall of 2017.

Second, the gathering of information and initial field audits took longer than expected. Many of the lines had to be mapped in order to make final determinations on new line routes, which delayed the determination of easement/ROW requirements. County and State right of way requests have also taken longer than expected, which has affected scheduling and grouping of projects when working in an area.

The Implementation Plan was adjusted to start construction in mid-March 2018. A very wet Spring delayed the start of construction to late April of 2017. The late start due to weather affected our ability to have access to fields due to crop planting, thus creating issues with our planned schedule of projects. In June, Black Hills experienced another delay due to heavy rains.

The start of construction was also delayed as the contractor and Black Hills Energy personnel had to learn and adjust for the requirements of the Farm Tap Safety project. Project completion for the first few weeks was less than expected due to this learning curve. This delay was experienced each time work shifted to a new area as new Black Hills personnel had to create a routine and work flow processes for the project.

Another delay began after the project was started when Black Hills Energy received notification from Northern Natural Gas in reference to their plan to abandon the A-Line and the associated natural gas customers from that line. NNG's plan to abandon the A-Line will make it necessary for these customers to find a new source of fuel. These abandonments affected our planned grouping and schedule of customers in certain areas and removed some scheduled projects from the available pool. Black Hills Energy is working with these individuals to determine the ability to serve them from Black Hills Energy facilities or the ability to combine with another NNG tap on a separate NNG line.

Year One Positives:

As the project has progressed, both Black Hills Energy and our external contractor have improved efficiencies, and the rate of project installation has improved from one project or less a day to 1.5 or 2 projects a day in most: This is affected by size and scope of each project.

Customer communications have been limited mainly to verbal notifications: As we begin to have a better grasp on the program and are able to better plan ahead, we are initiating written notifications where feasible. All customers received written notifications in 2017 explaining project scope, etc. The written communications we are implementing now are directed towards more timely communication of project scheduling.

We now have a consistent processes set up to ensure that the information on completed projects is reaching the necessary individuals/departments in a timely manner.

Now that all of the initial field surveys have been processed, mapping is underway, we are better able to identify those projects needing County/State ROW agreements. We will be able to send those in ahead of time to allow for the longer than expected processing and approval times. This will also allow us to address any Private Easement requirements between with the individual land owners.

Overall, we are now better positioned to address our remaining projects for the fall of 2018 and for all of 2019. With the lessons learned and the processes that we have in place we will have the ability to get ahead of these projects in both the planning and ROW/easement areas and thus have a smoother work flow in the field moving forward.

Year Two Revenue Requirement Projection:

Exhibit A attached to this filing provides a reconcilement of the "Year One" Capital Expenditures, Deferred Testing Cost, and Revenues Collected to the annual "Year One" revenue requirement adjusted for a ten months ending July 2018. Several adjustments are appropriate to reflect the partial initial first year.

Black Hills Energy's construction period is generally seven months long from mid-April through mid-November. For the ten months ended July 2018, there was an approximate five month construction period for Black Hill Energy. For the purpose of the ten month reconcilement, the projected "Net plant at year end" of $1,309,200 for Year One, (Exhibit A, line 9), has been adjusted to $935,143 (Exhibit A, line 20). As of July 31, 2018, Black Hills Energy's actual Net Plant Balance was $624,258 (Exhibit A, line 21). This results in an under spending of $310,885 for net plant for the reporting period. The under spending is the result of the late start of the Farm Tap Safety program in 2017 and weather delays in spring of 2018.

The Deferred Testing Costs adjusted for the ten months ended July 31, 2018 is $75,792 (Exhibit A, line 26) compared to the projected Year One Deferred Testing Costs of $90,950 (Exhibit A, line 13). The actual Deferred Testing Costs for ten months ended July 2018 was $54,684. This results in an under spending of Deferred Testing Costs of $21,108 (Exhibit A, line 28).

The annual projected revenues of $251,805 (Exhibit A, line 14), to be collected for Year One was adjusted to $209,837 (Exhibit A, line 32) for the ten months ended July 2018 reporting period. The actual revenues collected during the reporting period was $202,744 (Exhibit A, line 33). This results in an under collection of $7,093. The under collection was the result of a partial month's collection of revenues in October 2017 when Black Hill's implemented the surcharge.

Black Hills Energy believes that by the end of Year Two, the Company will meet or exceed the original Year 2 "Net plant at year end" total of $2,571,007 (Exhibit A, line 9). Black Hills Energy is not proposing any changes to the Year 2 "Net plant at year end" balance at this time.

Black Hills Energy requests approval to adjust the Year 2 revenue requirement of $430,969 (Exhibit A, line 14) to $438,062 (Exhibit A, line 16) to include the under collected revenue amount of $7,093 from Year One. The Year Two revenue requirement will increase monthly surcharges by class as follows:

- Residential increase of $0.06 to $0.15
- Commercial and Industrial increase of $0.16, to $0.37
- Energy Options Firm rate increase of $0.28 to $0.66

Exhibit B attached to this filing includes the calculation of the Year One Monthly Surcharge by Class and the adjusted Year Two Monthly Surcharge by Class. The Year Two surcharge average for all jurisdictional customers does not exceed the $0.18 cap set in Docket No. NG-0090 dated August 22, 2017. The adjusted Year Two Surcharge by Class is as follows:

- Residential: $.15 per month
- Commercial and Industrial: $.37 per month
- Energy Options Firm: $.66 per month

Also included with this filing is a clean and red lined version of the revised tariff "Second Revised Sheet, Sheet No. 41". The attached revised tariff includes the Year Two Surcharge by Class and changes to the language in sections "TESTING AND REPLACEMENT SURCHARGE" and "ANNUAL APPLICATION REQUIREMENTS". The language changes are to adjust the month references to reflect an October 1, 2017 start of the Farm Tap Replacement program. The First Revised Sheet No 41 indicated that cost would be collected starting September 1, 2017. The Company did not start collecting costs until October 1, 2017.The language changes also corrects the years that the surcharge is to be recalculated in section "TESTING AND REPLACEMENT SURCHARGE". The First Revised Sheet No 41 indicated that surcharge would be recalculated and adjusted each year in 2019 and 2020. The tariff should have indicated the surcharges would be recalculated and adjusted in 2018 and 2019.

Based on the forgoing, Black Hills Energy hereby submits, revised tariff Sheet No 41 and respectfully requests approval of the Year Two surcharge and the corrections to the language regarding the reporting periods for the annual reconcilements and true-up calculations.

If you have any questions, please feel free to email me at jeff.thomas@blackhillscorp.com, or call 402-221-2069.

Sincerely,

Jeffrey O. Thomas
Sr. Regulatory Analyst

CC: Nicole Mulcahy, Director and Legal Counsel, Natural Gas
Sallie Dietrich, Legal Counsel
William F. Austin, Esq., Nebraska Public Advocate
Douglas Law
Robert Amdor
Jeff Sylvester

Exhibit A

NEBRASKA FARM TAP REPLACEMENTS
ESTIMATED CUSTOMER IMPACTS

Line		Year One	Year Two	Year Three
1	Assumptions:			
2	641 farm tap customers			
3	763 feet average line length	$ 4,000,000	Program Cost	
4	$8.09/foot replacement cost	$ 6,240		
5	$425 estimated cost per safety test			
6	Farm tap replacements, beginning of year	-	1,309,200	2,571,007
7	New Investment ($4 million total, replaced 33% per year)	1,333,333	1,333,333	1,333,333
8	Annual depreciation expense	24,133	71,526	117,204
9	Net plant at year end	1,309,200	2,571,007	3,787,137
10	*Farm Tap Tracker Surcharge:*			
11	Carrying Charge (((0.52*9.6%)/(1-0.4008))+(0.48*4.4%))	136,721	268,493	395,495
12	Annual depreciation expense (3.62%)	24,133	71,526	117,204
13	Deferred Testing costs (estimated cost of 214 lines per year)	90,950	90,950	90,950
14	Total Reveue Requirement	251,805	430,969	603,649
15	Plus Prior Year Under/(Over) Collected Revenues		7,093	
16	Adjusted Surcharge		438,062	
17	Average impact on 201,605 customers per month Per Tariff Filing	$ 0.10	$ 0.18	$ 0.25
18	Net Plant at Year End	1,309,200		
19	Divided by 7 for averge number of construction months per year	187,029		
20	Multiplied by 5 (number of construction months October 2017 to July 2018)	935,143		
21	Net Plant As of July 2018 (70 Replaced or Purchased)	624,258		
22	Under Spent (Due to no Replacments or Purchases in 2017)	(310,885)		
24	Deferred Testing Costs (estimated cost of 214 lines per year)	90,950		
25	Divided by 12	7,579		
26	Multiplied by 10	75,792		
27	O&M Testing Expensed 10 Months Ended July 2018	54,684		
28	Under Spent	(21,108)		
30	Total Reveue Requirement Reconcilement	251,805		
31	Divided by 12	20,984		
32	Multiplied by 10	209,837		
33	Revenues Collected 10 Months Ended July 2018	202,744		
34	Under Collected (partial month of October 2017)	(7,093)		

Exhibit B

Year One:

Surcharge Revenue	$251,805			
Class Allocation:	Residential	Commercial/ Industrial	Energy Options Firm	Total
Jurisdictional Margin	$ 52,592,622	$ 11,172,878	$ 4,973,699	$ 68,739,199
Class % of total	76.5%	16.3%	7.2%	100.0%
Surcharge Revenue per Class	$192,657	$40,928	$18,220	$251,805
Current number of customers	181,597	15,986	4,022	201,605
Monthly Surcharge by Class	$ 0.09	$ 0.21	$ 0.38	$ 0.10

Year Two:

Surcharge Revenue	$430,969			
Plus Year 1 Under Collected	$7,093			
Adjusted Sur charge	$438,062			
Class Allocation:	Residential	Commercial/ Industrial	Energy Options Firm	Total
Jurisdictional Margin	$ 52,592,622	$ 11,172,878	$ 4,973,699	$ 68,739,199
Class % of total	76.5%	16.3%	7.2%	100.0%
Surcharge Revenue per Class	$335,163	$71,203	$31,696	$438,062
Current number of customers	181,597	15,986	4,022	201,605
Monthly Surcharge by Class	$ 0.15	$ 0.37	$ 0.66	$ 0.18

RULES AND REGULATIONS
FARM TAPS

COST RECOVERY

Company shall recover the costs of testing, line replacements and acquisitions through a pro forma surcharge mechanism. Company shall file an implementation plan and annual report, as well as a final report at the conclusion of the safety testing and replacement program.

TESTING AND REPLACEMENT SURCHARGE

All jurisdictional rate schedules are subject to a monthly surcharge designed to collect eligible farm tap testing and replacement costs as defined herein. Company shall collect eligible costs projected for the period October 1, 2017 through September 30, 2018 through the mechanism based on the revenue requirement of those costs divided by the average number of customer bills for that 12-month period. The surcharge will be recalculated and adjusted as of October 1, 2018 and 2019. The surcharge average for all jurisdictional customers will not exceed $0.10 for year one, $0.18 for year two, and $0.25 for year three.

In year one, the surcharge for each class will be:

- Residential: $.09 per month
- Commercial and Industrial: $.21 per month
- Energy Options Firm: $.38 per month

In year two, the surcharge for each class will be:

- Residential: $.15 per month
- Commercial and Industrial: $.37 per month
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ANNUAL APPLICATION REQUIREMENTS

Each proposed revision in the surcharge shall be accomplished by filing an application before September 1 of each year to take effect October 1 (the "Annual Application"). Annual Applications shall contain the following items:

a) Pertinent information and supporting data related to the eligible costs, including, at a minimum, project description and scope, project costs, and projected in-service dates for the projects budgeted to be completed in the upcoming twelve months;
b) Details supporting the project costs incurred during the previous twelve (12) months, including an explanation of how the project costs were managed and any deviations between budgeted and actual costs;
c) The calculation of the surcharge true-up amount, if any; and,
d) The calculation of the deferred surcharge balance, if any.

ELIGIBLE COSTS

The cost recovery mechanism may include the following costs: line replacements of existing lines running from the interstate transmission line tap to the Customer's premise and outbuildings; acquisitions of existing lines installed since September 1, 2007 at the customer's installation cost, less four (4) percent per year depreciation; and MAOP testing costs.

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