

Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-112.4
Review of 2024 Annual Surveillance Report

Information Reviewed

Blue Ridge Consulting Services, Inc. (“Blue Ridge”) reviewed the 2024 Annual Surveillance Report of Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“Company”), dated March 31, 2025, and filed in Docket No. NG-112.4.

Background

The Nebraska Public Service Commission—approved SSIR tariff (effective January 1, 2023) provides this background:

The Company shall make an annual surveillance filing within ninety days of the end of each calendar year. Such filings shall include calculations of the rate base separated into regular and SSIR components, the realized rates of return on the rate base components, along with supporting calculations. Additionally, the filing shall include an update regarding the status of the previous calendar year’s SSIR Project costs, actual or projected in-service dates, and, if any remain uncompleted at the time of submittal of the annual surveillance filing, the expected schedule for completion.¹

Analysis

Blue Ridge compared the required information against the Company’s March 31, 2025, annual surveillance filing.

Requirement: The Company shall make annual surveillance filings within ninety days of the end of each calendar year

Blue Ridge Comment: The Company’s filing complies with this requirement.

Requirement: The filing includes the rate base, separated into regular and SSIR components, and the realized rates of return on the rate base components, along with supporting calculations.

Information Provided: The Company stated that the annual surveillance report used the following four calculations.

Calculation 1: For the most recent annual period, the calculation of the realized rate of return on the Composite, SSIR, and Non-SSIR rate bases, determined on a period-ending rate base.

Calculation 2: For the most recent annual period, the rate base shown separately for the composite, SSIR, and non-SSIR components, including gross plant, construction work in progress, accumulated depreciation reserve, customer advances, accumulated deferred income taxes, and customer deposits.

Calculation 3: For the most recent annual period, the 12-month total revenue, weather normalized, shown separately for the non-SSIR and SSIR tariff components. For the most recent annual period, the 12-month total of operating and maintenance expenses shown by FERC Account including depreciation expenses. For the most recent annual period, the 12-month total operating income shown separately for the composite, SSIR, and non-SSIR components.

Calculation 4: For the most recent annual period, the most recent weighted average cost of capital including the outstanding balances for the capital structure (long-term debt and

¹ BHE Tariff, Third Revised Sheet No. 128.

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common equity); the cost of debt; and the most recently authorized rate of return on common equity for the Nebraska regulatory jurisdiction.

The Company noted that these period-end calculations are consistent with the methodology used in its last general rate case, Application No. NG-109.

Blue Ridge Comments: The Company provided these calculations in Confidential Attachment 1, based on a period-end rate base. Blue Ridge conducted a high-level review, and the calculations appear consistent with prior surveillance filings. Since no rate impact results from the filing, Blue Ridge did not perform a detailed audit of the calculations.

Requirement: Additionally, the filing shall include an update regarding the status of the previous calendar year's SSIR Project costs, actual or projected in-service dates, and, if any projects remain uncompleted at the time of submittal of the annual surveillance filing, the expected schedules for completion.

Information Provided: The Company submitted Confidential Attachment 2, detailing each project's category, funding project number and name, selection criteria, in-service date, actual 2024 spend, and various explanatory notes.

Blue Ridge Comments: Blue Ridge compared the actual projects and costs to those included in the NG-112.3 Application. In its application, the Company sought recovery on 29 projects, with a total proposed cost of \$45,787,210. The request did not include projected costs or Government-Mandated Facility Relocations, as these were unknown at the time of the application.

The 2024 surveillance filing reported actual costs of \$44,123,072 for 52 projects.

- Two TIMP projects were removed (with the explanation "No longer needing to be reconfirmed").
- The August 1, 2023, NG-112.3 2024 SSIR Application included eight alternative projects. The Company's surveillance filing reports three of those alternative projects placed in service under the DIMP category.
- Blue Ridge reviewed all the planned and alternative projects in the NG-112.3 SSIR review and found "that all the projects within the 2024 SSIR Project list and Alternative Project list align with an approved eligible SSIR category and are consistent with prior SSIR type of projects."²
- The SSIR Tariff authorizes the Company to recover the costs of facility relocation projects in the SSIR Charge. The Company stated in its NG-112.3 Application that facility relocation projects are directly tied to pipeline safety and public welfare:

The Company each year encounters the need to conduct facility relocation projects in connection with municipal infrastructure projects. These facility relocation projects, when they occur, are directly related to pipeline safety and integrity activities. Such projects are an integral step in the overall safety and integrity process. These projects are required by government entities to enhance the public welfare, including safety.

² Docket No. NG-112.3 Blue Ridge's report on the *Examination of the System Safety and Integrity Rider of Black Hills Nebraska Gas, LLC, d/b/a Black Hills Energy for the 2024 Program Year on Behalf of the Nebraska Public Advocate* (October 16, 2023) Page 30.

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Although the Company is currently aware of some state or municipal infrastructure projects in 2024 that may require the Company to conduct facility relocation projects, the costs of which are Eligible System Safety and Integrity Costs for recovery through the SSIR Tariff, the possibility of changes or cancellations to those or identification of additional qualified projects could arise. Therefore, through a subsequent filing, the Company will provide updates of its facility relocation projects in connection with state or municipal infrastructure projects and will seek to recover the Eligible System Safety and Integrity Costs associated with those projects that occurred.³

The actual projects and costs for the 22 Government-Mandated Facility Relocations were included in the surveillance filing.

The following table summarizes the projected and actual 2024 projects:

Table 1: Projected vs. Actual 2024 Projects⁴

Criteria	NG-112.3 2024 Projected		Actual	
	# of Projects	Cost	# of Projects	Cost
DIMP	20	\$ 40,730,157	20	\$ 36,057,560
Obsolete Infrastructure	6	4,587,053	6	3,147,502
TIMP	3	470,000	1	22,258
Facility Relocations	0	-	22	1,653,352
Alternative Projects–DIMP			3	3,242,400
	29	\$ 45,787,210	52	\$ 44,123,072

Note: the Company proposed 8 Alternative Projects in NG112.3. The three placed in service had a projected cost of \$11,307,000, with an actual cost of \$3,242,000.

Blue Ridge further notes that the Company provided actual in-service dates for the projects, with most placed in service earlier than expected.

³ NG-112.3 S024 SSIR Application, 2024 Projects Reflected in the System Safety and Integrity Rider for Black Hills Nebraska Gas, LLC (August 1, 2023), page 31.

⁴ WP NG-112.4 Attachment 2 2024 Projects – CONFIDENTIAL (Not Attached).