

PUBLIC VERSION
Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-112.4
Review of 2025 Annual Surveillance Report

Information Reviewed

Blue Ridge Consulting Services, Inc. (“Blue Ridge”) reviewed Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“Company”), 2025 Annual Surveillance Report, dated March 31, 2026.

Background

The Nebraska Public Service Commission-approved SSIR tariff (effective January 1, 2023) states

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 to the March 31, 2026, annual surveillance filing. The following discussion provides the Requirement and Blue Ridge’s comment regarding compliance with the Requirement.

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 the requirement to file within ninety days of the end of the calendar year.

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.

PUBLIC VERSION
Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-112.4
Review of 2025 Annual Surveillance Report

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

The Company further stated that these period-end calculations are consistent with the methodology used in BHE's Application No. NG-109.

Blue Ridge Comments: Blue Ridge performed a high-level review of the calculations. The calculations appear consistent with prior Surveillance filings. Since there is no rate impact, Blue Ridge did not perform a detailed review 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 provided Confidential Attachment 2 that identified projects as Primary, Alternative, or a Relocation Project, Funding Project number and Project Name, the Project Category and Account Allocator, In-Service Date, and the actual amount spent. The attachment also included notes that identified Alternative and Facility Relocation projects.

Blue Ridge Comments:

Total SSIR Project Estimated vs. Actual

The following table summarizes the estimated vs. actual project costs. The estimated vs. actual cost variance is approximately two percent. When considering the Facility Relocation Projects discussed in the Application, but not assigned estimated costs, the estimated vs. actual cost variance is less than one percent.

Table 1: Application Estimated Costs vs. Actual Costs

Blue Ridge found the variance is not unreasonable.

The Company Surveillance filing included two Alternative Projects and five Facility Relocation Projects.

Alternative Projects

The Company Surveillance filing included two Alternative Projects. The Company's NG-112.4 Annual Application stated its position on Alternative Projects.²

² NG-112.4 Application of BHE's 2025 SSIR, 2025 Projects (August 1, 2024), page 8.

PUBLIC VERSION
Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-112.4
Review of 2025 Annual Surveillance Report

c) 2025 SSIR Alternative Project Budget Estimates

As in the past, this 2025 SSIR Application provides individual descriptions of 2025 SSIR projects for the Commission's review. As described above, the Company seeks continuation of past budget flexibility and to enhance that flexibility to manage SSSIR projects between categories or to add a previously unidentified SSIR Projects where such projects can be completed prudently and efficiently.

The Company believes the ability to manage SSIR dollars within an eligible project category, across categories, or to include efficiency SSIR projects, allows for flexibility to adjust spend, or add projects, when impacted by significant events outside the Company's control, such as those described above. SSIR eligible project categories are listed in the Company's Tariff, Sheet No. 129.1, Definitions, Part C System Safety and Integrity Projects, Section v.

The SSIR Project budget flexibility, as approved by the Commission in its 2023 SSIR Charge Order and 2024 SSIR Charge Order, along with the additional budget flexibility requested in this 2025 SSIR Application, permits the Company to adjust to uncontrollable or unanticipated events or circumstances.

As discussed in the Direct Testimony of Donna H. Mullinax in Docket No. NG-124, Blue Ridge continues to recommend the following regarding the treatment of Alternative Projects in the approved Tariff.

- 13 2. While the Commission authorized transferring spend within categories in NG-112.3,
14 Blue Ridge found that the Commission has not specifically approved cross-category
15 budget flexibility and that flexibility is not reflected in the approved SSIR Tariff.
16 Nevertheless, the Commission approved all the projects and estimated budget
17 amounts. Therefore, Blue Ridge does not believe the cross-category spending for
18 specifically approved projects is a compliance issue. However, Blue Ridge
19 recommends modifying the SSIR Tariff to allow flexibility to swap amounts approved
20 by SSIR category to another SSIR category as long as the projects have been reviewed
21 and approved as part of the Application review process. Each such swap will be
22 identified, and an explanation will be given as to why the original project could not be
23 completed and an alternate project was used.

Regarding the two Alternative Projects included in the Surveillance filing, Blue Ridge found them identified in the Annual Application as potential Alternative and believes the inclusion of these two Projects is consistent with prior Commission precedent.

As shown in the following table, the Company's actual Primary project spend was \$2,091,095 less than the NG-112.4 SSIR Application estimate. After including the Alternative Project costs of \$2,485,525. The total spend (without Facility Relocation Costs) was \$394,430 (.88%).

PUBLIC VERSION
Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-112.4
Review of 2025 Annual Surveillance Report

Table 2: Alternative Projects Effect on Total SSIR Spend

Blue Ridge found that the overspend is not unreasonable.

Facility Relocation Projects

The Company's NG-112.4 2025 Application provided the following information regarding Facility Relocation projects.³

K. Facility Relocation Projects

The SSIR Tariff authorizes the Company to recover the costs of facility relocation projects in the SSIR Charge. 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.

Although the Company is currently aware of some state or municipal infrastructure projects in 2025 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.

The Company did not provide an estimated cost for this potential work but stated it would provide updated on its facility relocation projects. Blue Ridge was not provided the supplemental information on the Facility Relocation projects and does not know if it was provided to the Commission. If the information was not provided, Blue Ridge recommends that the Company provide timely updates on Facility Relocation Costs that are not reflected in the Annual Application.

Specific Project Estimated vs. Actual Cost Variance

Blue Ridge compared the Estimated and Actual in-service dates and costs for each SSIR projects and identified several variances as shown in the following table.

³ NG-112.4 Application of BHE's 2025 SSIR, 2025 Projects (August 1, 2024), page 32.

PUBLIC VERSION
Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-112.4
Review of 2025 Annual Surveillance Report

Table 3: Estimated vs. Actual Project Cost and In-Service Dates Variance Analysis

PUBLIC VERSION
Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-112.4
Review of 2025 Annual Surveillance Report

Blue Ridge anticipates that the Company will provide explanations for the deviations as required by the Tariff in the next Annual Application for proposed SSIR revision (expected in August 2026). The Tariff requires the Company to provide “Details of the Project costs incurred during the previous calendar year including an explanation of how the Project costs were managed and any deviations between budgeted and actual costs, actual or projected in-service dates, and the expected schedule for completion of the previous calendar year’s projects.”⁴

**ANNUAL
APPLICATION
AND ANNUAL
SURVEILLANCE
FILINGS**

- A. Each proposed revision in the System Safety and Integrity Rider Charge shall be accomplished by filing an application on or around August 1 of each year to take effect on the following January 1 (the “Annual Application”). The Annual Application shall contain the following items:
- i. Pertinent information and supporting data related to Eligible System Safety and Integrity 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 calendar year. Should circumstances arise which prohibit the Company’s planned spending on a Project, the Company may transfer funds within the same category to another like Project. Such transfer of funds will be communicated to the Public Advocate and Commission via an informational filing subject to the Public Advocate’s review and the Commission’s approval.
 - ii. Details of the Project costs incurred during the previous calendar year including an explanation of how the Project costs were managed and any deviations between budgeted and actual costs, actual or projected in-service dates, and the expected schedule for completion of the previous calendar year’s projects.
 - iii. The calculation of the SSIR True-Up Amount, if any.
 - iv. The calculation of the Deferred SSIR Balance, if any.

Source: BHE Tariff, Third Revised Sheet No. 127, Effective Date January 1, 2023

Since there is no rate impact and the next Annual Application will provide explanations for these variances, Blue Ridge did not pursue explanations for individual Project estimated vs. actual costs deviations in this review.

⁴ BHE Tariff, Third Revised Sheet No. 127.