

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF

**BLACK HILLS NEBRASKA GAS, LLC
D/B/A BLACK HILLS ENERGY,
RAPID CITY, SOUTH DAKOTA**

SEEKING APPROVAL OF A GENERAL RATE INCREASE

Application No. NG-124

May 1, 2025



RATE REVIEW INDEX

Rate Application Cover Sheet

Executive Summary

Application for General Rate Increase

Application Exhibit 1 (Requirements from *291 Neb. Admin. Code Ch. 9, Rule 004*)

Direct Testimony (Testimony Exhibits provided through Sharefile only)

1. Ms. Tatyana V. Bannan
2. Ms. Brooke N. Bassell-Herman
3. Ms. Jennifer C. Bingaman
4. Mr. Kenneth L. Crouch
5. Mr. Ethan J. Fritel
6. Mr. Douglas N. Hyatt
7. Mr. Kevin M. Jarosz
8. Ms. Samantha K. Johnson
9. Ms. Lori J. Mack
10. Mr. Adrien M. McKenzie
11. Mr. Kris J. Pontious
12. Mr. John J. Spanos
13. Mr. Thomas D. Stevens

Workpapers (Workpapers provided through ShareFile only)

EXECUTIVE SUMMARY

A. Applicant

Black Hills Nebraska Gas, LLC, d/b/a Black Hills Energy (“BH Nebraska Gas” or “Company”), a “jurisdictional utility” under Section 66-1802 (10) of the State Natural Gas Regulation Act of Nebraska (“Act”), provides retail natural gas distribution service to 304,429 customers located in over 300 communities in Nebraska.¹ With this Rate Review Application, BH Nebraska Gas is seeking approval by the Nebraska Public Service Commission (“Commission”) of a general rate increase under the Act for its Nebraska jurisdictional customers. *Neb. Rev. Stat. §§ 66-1801 et. seq.* This general rate filing complies with *Neb. Rev. Stat. § 66-1838* of the Act, and the Commission Regulations 291*Neb. Admin. Chapter 9. (See e.g., Rules 004 through Rule 008).*

The BH Nebraska Gas service area is divided into five different rate areas: (1) Rate Area One consists of nine communities adjacent to the Omaha Metropolitan area, (2) Rate Area Two consists of the City of Lincoln and nearby communities, (3) Rate Area Three consists of 94 communities in the central and eastern portion of Nebraska; (4) Rate Area Four represents non-jurisdictional transportation customers in Rate Areas One, Two, and Three, served under the High Volume Contracts or Interruptible Customers, and (5) Rate Area Five consists of 195 communities in the western part of Nebraska. A list and map of the existing and proposed rate areas for BH Nebraska Gas is included within the Tariffs provided by the Company as part of this rate Application.

B. Rate Review Application Drivers

BH Nebraska Gas has not had a general rate increase under the Act in Nebraska since 2020.² The most important drivers to this Rate Review Application for BH Nebraska Gas are as follows:

- (1) Recovery of investments made by BH Nebraska Gas in capital infrastructure since the 2020 rate review that are not System Safety and Integrity Rider (“SSIR”) eligible as well as including in base rates the SSIR investments made since 2020;
- (2) SSIR Renewal;
- (3) Impacts of inflation leading to increased operating and maintenance expenses, material costs, insurance costs, and labor; and
- (4) Increased cost of debt due to a higher interest rate environment.

¹ The jurisdictional customer count is approximately 300,342 and non-jurisdictional customer count is approximately 4,087.

² *Commission Application No. NG-109.*

A summary of each application driver is set forth immediately below.

1. Capital Infrastructure Investments

BH Nebraska Gas has made significant capital investment in their gas distribution system infrastructure since the last Rate Review Application (“Capital Infrastructure Projects”). In fact, BH Nebraska Gas has invested approximately \$331 million (jurisdictional and non-jurisdictional investments) in gross capital additions since the last rate review proceeding. Those Capital Infrastructure Project investments were made to improve the gas distribution system of BH Nebraska Gas. Although \$331 million was invested in gross capital additions since the last rate view, \$186 million of that is related to the SSIR projects.

BH Nebraska Gas expects to invest another \$122.7 million within the Test Year period beginning on January 1, 2025, and continuing through December 31, 2025, for total capital investment since the last rate review proceeding of approximately \$453.7 million. The total jurisdictional portion of state rate base for the Company will increase to \$785.2 million by the end of this rate review proceeding, representing a total jurisdictional rate base increase of \$281.1 million since the last Rate Review Application.

A summary of Capital Infrastructure Projects investments by BH Nebraska Gas is provided below.

- **Rolled-in Capital Investment.** A significant amount of the Capital Infrastructure Project investment was made in system safety infrastructure (i.e., “Integrity” projects). That investment has been recovered through SSIR Charge.

On the other hand, significant investment in other Capital Infrastructure Projects (i.e., Growth, Reliability, or General Plant projects) has not yet been incorporated into tariff rates by BH Nebraska Gas.

All Capital Infrastructure Project investments will be included (i.e., rolled into Rate Base) in tariff rates through this Rate Review Application. The Rolled-in Capital Infrastructure investment is included in this Rate Review Application as Direct Exhibit SKJ-2, Statement D and Schedules D-1, D-2, and D-3 attached to the testimony of Ms. Johnson and discussed by Ms. Mack.

- **2025 Capital Additions Investment.** BH Nebraska Gas will invest approximately \$122.7 million in Capital Additions during 2025. BH Nebraska Gas will invest in numerous Growth, Integrity, Reliability, and General Plant Capital Investment Projects. The 2025 Capital Additions are included in this Rate Review Application as Exhibit KMJ-3 attached to the testimony of Mr. Jarosz.
- **2026 SSIR Capital Investment.** In 2026, BH Nebraska Gas proposes to invest approximately \$47 million in SSIR projects. The Application for the 2026 SSIR projects is included in this Rate Review Application as Exhibit No. TVB-2 attached to the testimony of Ms. Bannan.

- **Five-Year Plan Capital Investment.** The Company plans to invest an additional \$520 million (i.e. approximately \$104 million on average per/year) in Capital Infrastructure Projects over the next five years in BH Nebraska Gas. BH Nebraska Gas will spend approximately \$45-50 million of the \$104 million per year on programmatic SSIR projects.

2. **SSIR Renewal**

Another driver for this Rate Review Application is the renewal of the SSIR mechanism. The SSIR is a mechanism that provides the Company with an opportunity to timely recover prudent investment in its natural gas infrastructure. There are three major benefits of the SSIR to both the company and its customers: (a) enhanced system safety, (b) regulatory stability and cost efficiency, and (c) rate stability for customers. BH Nebraska Gas is not proposing any significant changes to the current SSIR mechanism.

3. **Impacts of Inflationary Factors**

Another primary driver for the revenue deficiency is the inflationary impact associated with the cost to serve and the increase in capital since the Company's last rate review in 2020. BH Nebraska Gas has worked diligently to manage capital. While BH Nebraska Gas has prudently managed its expenses since that time, the Company has not been immune to the same cost increases our customers have faced. According to the Consumer Price Index, prices for all goods and services have risen approximately 21% since the Company's base rates were effective from the 2020 rate review.³

4. **Increased Cost of Debt as a Result of Interest Rates**

Due to the higher interest rate environment, the Company experienced an increased cost of debt and equity capital and must maintain financial integrity by recovering such cost increases as it relates to the Company in this proceeding. The current cost of debt has increased from the authorized 3.91% to a projected 4.71% at the end of the *Test Year*.

C. **Other Rate Review Application Sections**

1. **Revenue Deficiency**

BH Nebraska Gas is experiencing a revenue deficiency of \$34.9 million that will be addressed in this rate review proceeding. The Base Year for this Rate Review Application is January 1, 2024, through December 31, 2024. The Test Year adjusts the Base Year for known and measurable changes, as well as applying normalization adjustments, as required by the Act, and an annualized adjustment to correct for out-of-period billing entries. The Company is proposing to include in rate base capital projects that went into service after the end of the Base Year and through the end of 2025. The revenue deficiency for BH Nebraska Gas is supported by a

³ CPI Inflation Calculator: https://www.bls.gov/data/inflation_calculator.htm January 2021 through December 2024.

comprehensive revenue requirements study and applies the Company's current Cost Allocation Manual allocation factors for direct and indirect costs.

Revenue Deficiency	Capital Structure	ROE	Cost of Debt	Weighted Cost of Capital
\$34.9 million	50.52% Equity/ 49.48% Debt	10.5%	4.71%	7.63%

2. Rate Design

BH Nebraska Gas completed a comprehensive Class Cost of Service study. The rates and rate design are also supported by revenue proof and billing determinants verification. BH Nebraska Gas designed its proposed rates to accomplish the following results:

- (1) The threshold between Tier 1 and Tier 2 volumetric rates for Residential customers is lowered;
- (2) Commercial customers are separated into two classes with a Small Commercial Service and Large Commercial Service, each with its own unique threshold between Tier 1 and Tier 2 volumetric rates;
- (3) The proposed Tier 1 volumetric rates for the three classes are not linked with each other, as they are under the current rates for all jurisdictional customers; and
- (4) The Tier 2 volumetric rates for all jurisdictional customers are set at the current rate of \$0.15 per therm.

The BH Nebraska Gas Rate Application proposes the following rate design:

BH Nebraska Gas Recommended Rate Design

Customer Class	Current Rates	Proposed Rates
<u>Residential</u>		
Customer Charge	\$15.45	\$31.00
Distribution Tier 1	\$0.50858 per therm, First 20 therms	\$0.42242 per therm, First 10 therms
Distribution Tier 2	\$0.15000 per therm, Over 20 therms	\$0.15000 per therm, Over 10 therms

Customer Class	Current Rates	Proposed Rates
<u>Small Commercial</u>		
Customer Charge	\$28.43	\$48.00
Distribution Tier 1	\$0.50858 per therm, First 40 therms	\$0.95940 per therm, First 20 therms
Distribution Tier 2	\$0.15000 per therm, Over 40 therms	\$0.15000 per therm, Over 20 therms
<u>Large Commercial</u>		
Customer Charge	\$28.43	\$121.00
Distribution Tier 1	\$0.50858 per therm, First 40 therms	\$0.22484 per therm, First 500 therms
Distribution Tier 2	\$0.15000 per therm, Over 40 therms	\$0.15000 per therm, Over 500 therms

Average Customer Bill Impacts

Customer Class	Average Month		Winter Month		Summer Month	
	Amt	%	Amt	%	Amt	%
Residential	\$6.27	9.4%	\$6.27	6.5%	\$6.27	13.7%
Small Commercial	\$6.29	4.4%	\$6.29	2.9%	\$6.29	6.7%
Large Commercial	\$100.52	8.8%	\$100.52	5.7%	\$100.52	14.6%

3. Additional Rate Application Proposals

BH Nebraska Gas makes several proposals within the rate application as summarized below. For example, BH Nebraska Gas requests approval of several regulatory mechanisms. Some of the BH Nebraska Gas proposed regulatory mechanisms require the Commission to renew and continue the regulatory mechanisms approved by the Commission in the past. However, as identified below, a couple of regulatory mechanisms are new to BH Nebraska Gas but are more common within the utility industry.

a. Regulatory Mechanisms

The regulatory mechanisms included within the Application are further supported by testimony and exhibits. The regulatory mechanisms within the Application include the following:

- SSIR - renewal of the existing SSIR mechanism as well as approval of proposed 2026 SSIR projects;

- High Efficiency Assistance Tool (“HEAT”) – approval of recovery of the third-party administrative costs in the annual spending cap; and
- Weather Normalization Adjustment Rider (“WNA”) – requesting approval of a new proposed Weather Normalization Adjustment Rider.

b. Deferred Accounting Treatment Approval

In addition to approval of the regulatory mechanisms, BH Nebraska Gas requests the Commission authorize Deferred Accounting Treatment for each of the following expense categories:

- Manufactured Gas Plant (“MGP”). One of the Deferred Accounting Treatments would authorize BH Nebraska Gas to establish a regulatory asset to record and track costs for future recovery of BH Nebraska Gas costs for Manufactured Gas Plant research, testing, environmental monitoring cleanup, and other appropriate or necessary remediation costs.
- Insurance Premiums. The other Deferred Accounting Treatment requested by BH Nebraska Gas would authorize BH Nebraska Gas to establish a regulatory asset to record and track costs for future recovery of insurance premium cost increases.

c. Other Rate Application Items

The BH Nebraska Gas rate Application also includes BH Nebraska Gas proposals for the following:

- EDIT – BH Nebraska Gas proposes to refund Excess Deferred Income Taxes due to state of Nebraska tax changes;
- Rate Area Adjustment – BH Nebraska Gas proposes to move the town of Western, NE from Rate Area Five to Rate Area Three;
- Rate Case Expenses – BH Nebraska Gas proposes to recover rate case expenses to be incurred throughout this proceeding; and
- Tariff Changes – BH Nebraska Gas proposes several tariff changes.

4. Compliance with Prior Orders

BH Nebraska Gas reviewed prior Orders of the Commission and prepared its Rate Application in proceeding in compliance with the Commission’s orders.

- Low Use Commercial Customer Study - As detailed in the testimony of Mr. Hyatt and Ms. Bassell-Herman, BH Nebraska gas has incorporated changes related to low-use Commercial customers.

- Interim Rates - BH Nebraska Gas will implement 100% of its interim rates, subject to refund, commencing on August 1, 2025.

5. Witnesses

BH Nebraska Gas provides testimony and evidence in support of its Rate Review Application, tariffs, and other items. The table below lists the Company witnesses providing testimony in support of the BH Nebraska Gas Rate Review Application.

WITNESS LIST AND PURPOSE OF TESTIMONY	
WITNESS	PURPOSE OF TESTIMONY
Tatyana V. Bannan Manager, Regulatory	SSIR Renewal, 2026 SSIR Application, HEAT, Rate Review Expense and Tariff Changes
Brooke N. Bassell-Herman Director, Regulatory	Background, Application Overview, Rate Application Drivers, Witness Introduction, Regulatory Mechanisms and Proposals, Application Items, Commission or Statutory Compliance Items, Interim Rates
Jennifer C. Bingaman Manager, Gas Pipeline and System Integrity	Safety Investment & Risk Ranking, Federal & State Regulations for Pipeline Safety, Mega Rule, DIMP, TIMP, DIIP and SSIR
Ken L. Crouch Senior Manager, Tax	ADIT, EDIT, NE Corporate Income Tax Reduction, EDIT Refund, Stored Gas Property Tax
Ethan J. Fritel Senior Regulatory Analyst	Billing Determinants including weather, revenue under current rates, and revenue under proposed rates
Douglas N. Hyatt Manager, Regulatory	Class Cost of Service, Rate Design, Weather Normalization Adjustment Rider

Kevin M. Jarosz Vice President Nebraska & Iowa Operations	System Overview, Operations, Capital Additions, Capital Plan, SSIR Renewal and 2026 Application, Manufactured Gas Plant, Public Awareness Plan
Samantha K. Johnson Director, Regulatory	Revenue Requirement Study, CAM, Various Adjustments and Affiliate Transactions
Lori J. Mack Manager, Regulatory	Revenue Requirement – Rate Base
Adrien M. McKenzie FinCap	Return on Equity
Kris J. Pontious Senior Manager, Compensation	HR Employee and Executive Compensation Programs/Variable Compensation Programs
John J. Spanos Gannett Fleming Valuation and Rate Consultants	Depreciation Study
Tom D. Stevens VP Treasury	Capital Structure, Cost of Debt

6. Executive Summary Conclusion

For the reasons set forth below and supported by testimony, exhibits, schedules, and other evidence required by the Act and Commission Rules and Regulations, BH Nebraska Gas submits this Rate Review Application for general rate review and respectfully requests that the Commission and Public Advocate approve the Rate Review Application after proper review, analysis, investigation, and hearing.

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
 BLACK HILLS NEBRASKA GAS, LLC, D/B/A) APPLICATION NO. NG -124
 BLACK HILLS ENERGY, RAPID CITY, SOUTH)
 DAKOTA, SEEKING APPROVAL OF A)
 GENERAL RATE INCREASE)

APPLICATION FOR RATE INCREASE

Comes now Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“BH Nebraska Gas” or “Company”), pursuant to the State Natural Gas Regulation Act, *66 Neb. Rev. Stat. § 66-1801 et seq.* (the “Act”) and the Rules and Regulations of the Nebraska Public Service Commission (“Commission”), Neb. Admin. Code, Title 291, Chapter 9 Pipeline Common Carriers Rules and Regulations (“Chapter 9”), for a request to change the rates for natural gas service provided to BH Nebraska Gas’ customers located within BH Nebraska Gas’ Rate Area One, Rate Area Two, Rate Area Three, and Rate Area Five.

In support of its Rate Review Application, BH Nebraska Gas states as follows:

I. Description of BH Nebraska Gas**A. BH Nebraska Gas.**

Black Hills Nebraska Gas, LLC, d/b/a Black Hills Energy (“BH Nebraska Gas” or “Company”), a “jurisdictional utility” under Section 66-1802 (10) of the State Natural Gas Regulation Act of Nebraska (“Act”), provides retail natural gas distribution service to approximately 304,429 customers located in over 300 communities in Nebraska.⁴ With this Rate Review Application, BH Nebraska Gas is seeking approval by the Nebraska Public Service Commission (“Commission”) of a general rate increase under the Act for its Nebraska jurisdictional customers. *Neb. Rev. Stat. §§ 66-1801 et. seq.* This general rate filing complies with *Neb. Rev. Stat. § 66-1838* of the Act, and the Commission Regulations *291 Neb. Admin. Chapter 9. (See e.g., Rules 004 through Rule 008).*

The BH Nebraska Gas service area is divided into five different rate areas: (1) Rate Area One consists of nine communities adjacent to the Omaha Metropolitan area, (2) Rate Area Two consists of the City of Lincoln and nearby communities, (3) Rate Area Three consists of 94 communities in the central and eastern portion of Nebraska; (4) Rate Area Four represents non-jurisdictional transportation customers in Rate Areas One, Two and Three, served under the High Volume Contracts or Interruptible Customers, and (5) Rate Area Five consists of 195 communities in the western part of Nebraska. A list and map of the existing and proposed rate areas for BH Nebraska Gas is included within the Tariffs provided by the Company as part of this rate Application.

⁴ The jurisdictional customer count is approximately 300,342 and non-jurisdictional customer count is approximately 4,087.

B. BH Nebraska Gas has a jurisdictional net investment in its Test Year rate base totaling approximately \$785 million. Black Hills Corporation has approximately 2,800 employees for all its operations, and BH Nebraska Gas employs 341.5 people in Nebraska. As of December 31, 2024, BH Nebraska Gas provided retail natural gas distribution service to approximately 304,429 customers located in over 300 communities in Nebraska.

C. This Rate Review Application specifically seeks to (a) set new increased rates due to various rate application drivers, (b) establish the rate design proposed in the rate application, (c) obtain new or continued Commission approval of other rate mechanisms, (d) obtain Commission approval of proposed deferred accounting treatment, (e) obtain Commission approval of other application rate proposals, and (f) obtain Commission approval of several appropriate or necessary tariff revisions for the established rate areas.

II. Contents of Rate Review Application and Communication

A. Contents of Rate Review Application

1. This BH Nebraska Gas Rate Review Application filed electronically through ShareFile consists of several documents. Those documents include all the rate review application schedules, direct testimony, testimony exhibits, and workpapers required by the Act and the Commission Rules.⁵ BH Nebraska Gas provides an index at the beginning of Application Exhibit 1 listing and describing each of the Sections and Schedules along with a cross reference of the witness(es) sponsoring each Schedule.

In addition to the complete application filed electronically through ShareFile, BH Nebraska Gas also filed its general rate filing application and supporting Testimony in a paper format. The “paper” filing does not contain all the items noted above to save time and cost of printing. The electronic version of the application corresponds to the Commission’s requirements identified and explained below. The paper filing is a limited version of the ShareFile electronic application. The limited version is authorized pursuant to the Commission’s anticipated approval authorizing BH Nebraska Gas to waive certain paper filing requirements for this rate review application.

Specifically, BH Nebraska Gas omitted voluminous information, testimony exhibits, and workpapers from its paper-filed rate review application. BH Nebraska Gas does include the Commission’s cover sheet, an executive summary of its application, Application Exhibit 1, and testimony in the paper filing. **All rate application components required by the Commission rules and regulations are contained within the ShareFile rate review application provided to the Commission.**

2. BH Nebraska Gas developed this Rate Review Application in accordance with the Act, the Commission’s Natural Gas and Pipelines Rules and Regulations, Title 291, Chapter 9 of

⁵ The BH Nebraska Gas Revenue Requirement Study found in Exhibit SKJ-2 of Ms. Johnson’s testimony contains several different tabs that provide schedules required by the Commission’s rate review application rules. Ms. Johnson provides an explanation of each tab. The rate design schedules are provided in Section 5 of Application Exhibit 1, and the Class Cost of Service Study is provided under Section 6 of Application Exhibit 1. Mr. Fritel and Mr. Hyatt provide support for those Commission requirements.

the Nebraska Administrative Code (the "Commission Rules"), Nebraska common law and generally accepted accounting and ratemaking principles.

3. The Rate Review Application contains the information required under the Commission's rate application rules and regulations. Those documents can be found under Application Exhibit 1 organized as follows:

- Application Exhibit 1, Section 1
 - Rule 004.02 (Section I – General Information)
- Application Exhibit 1, Section 2
 - Rule 004.03 (Section II – Rate Base Schedules)
- Application Exhibit 1, Section 3
 - Rule 004.04 (Section III – Operating Expense Schedules)
- Application Exhibit 1, Section 4
 - Rule 004.05 (Section IV – Rate of Return and Cost of Capital Schedules)
- Application Exhibit 1, Section 5
 - Rule 004.06 (Section V – Revenue Schedules)
- Application Exhibit 1, Section 6
 - 004.07 (Section VI – Class Cost of Service Study)
- Application Exhibit 1, Section 7
 - 004.08 (Section VII –Direct Testimony and Exhibits)
- Application Exhibit 1, Section 8
 - Tariffs (clean and red-lined)
- Application Exhibit 1, Section 9
 - 004.01C (Workpapers)

The documents and schedules contained within Application Exhibit 1 and the associated electronic files from which the information was produced are incorporated into this Application by reference herein.

B. Communications

Communications regarding this Rate Review Application should be addressed to the following:

Brooke N. BassellHerman

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Black Hills Service Company, LLC
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III. Background and Reason for General Rate Filing**A. Last Rate Review**

BH Nebraska Gas has not had a general rate increase under Neb. Rev. Stat. § 66-1838 in Nebraska since 2020.⁶ BH Nebraska Gas preserved existing base tariff rates by controlling costs and increasing revenues by investing in infrastructure improvements needed to maintain the safety and reliability of BH Nebraska Gas' Nebraska gas distribution system. The Commission's approval of System Safety and Integrity Rider ("SSIR") mechanism helped BH Nebraska Gas delay a general rate review.

⁶ Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy's rate review proceeded under Commission Application No. NG – 109.

B. Rate Review Application Drivers

The most important drivers to this Rate Review Application for BH Nebraska Gas are as follows:

- (1) Recovery of investments made by BH Nebraska Gas in capital infrastructure since the 2020 rate review that are not System Safety and Integrity Rider (“SSIR”) eligible as well as including in base rates the SSIR investments made since 2020;
- (2) SSIR Renewal;
- (3) Impacts of inflation leading to increased operating and maintenance expenses, material costs, insurance costs, and labor; and
- (4) Increased cost of debt due to a higher interest rate environment.

A summary of each application driver is set forth below.

1. Capital Infrastructure Project Investment Recovery

BH Nebraska Gas has made significant capital investment in their gas distribution system infrastructure since the last Rate Review Application (“Capital Infrastructure Projects”). In fact, BH Nebraska Gas has invested approximately \$331 million (jurisdictional and non-jurisdictional investments) of in gross capital additions since the last rate review proceeding. Those Capital Infrastructure Project investments were made to improve the gas distribution system of BH Nebraska Gas. Although \$331 million was invested in gross capital additions since the last rate view, \$186 million of that is related to the SSIR projects.

BH Nebraska Gas expects to invest another \$122.7 million within the Test Year period beginning on January 1, 2025, and continuing through December 31, 2025, for total capital investment since the last rate review proceeding of approximately \$453.7 million. The total jurisdictional portion of state rate base for the Company will increase to \$785.2 million by the end of this rate review proceeding, representing a total jurisdictional rate base increase of \$281.1 million since the last Rate Review Application.

A summary of Capital Infrastructure Projects investments by BH Nebraska Gas is provided below.

- **Rolled-in Capital Investment.** A significant amount of the Capital Infrastructure Projects investment was made in system safety infrastructure (i.e., “Integrity” projects). That investment has been recovered through SSIR Charge.

On the other hand, significant investment in other Capital Infrastructure Projects (i.e., Growth, Reliability, or General Plant projects) has not yet been incorporated into tariff rates by BH Nebraska Gas.

All Capital Infrastructure Project investments will be included (i.e., rolled into Rate Base) in tariff rates through this Rate Review Application. The Rolled-in Capital Infrastructure investment is included in this Rate Review Application as Direct Exhibit SKJ-2, Statement D and Schedules D-1, D-2, and D-3 attached to the testimony of Ms. Johnson and discussed by Ms. Mack.

- **2025 Capital Additions Investment.** BH Nebraska Gas will invest approximately \$122.7 million in Capital Additions during 2025. BH Nebraska Gas invested in numerous Growth, Integrity, Reliability, and General Plant Capital Investment Projects. The 2025 Capital Additions are included in this Rate Review Application as Exhibit KMJ-3 attached to the testimony of Mr. Jarosz.
- **2026 SSIR Capital Investment.** In 2026, BH Nebraska Gas proposes to invest \$47 million in SSIR projects. The Application for the 2026 SSIR projects is included in this Rate Review Application as Exhibit No. TVB-2 attached to the testimony of Ms. Bannan.
- **Five-Year Plan Capital Investment.** The Company plans to invest an additional \$520 million (i.e. approximately \$104 million on average per/year) in Capital Infrastructure Projects over the next five years in BH Nebraska Gas. BH Nebraska Gas will spend approximately \$45-50 million of the \$104 million per year on programmatic SSIR projects.

2. **SSIR Renewal**

Another driver for this Rate Review Application is the renewal of the SSIR mechanism. The SSIR is a mechanism that provides the Company with an opportunity to timely recover prudent investment in its natural gas infrastructure. There are three major benefits of the SSIR to both the company and its customers: (a) enhanced system safety, (b) regulatory stability and cost efficiency, and (c) rate stability for customers. BH Nebraska Gas is not proposing any significant changes to the current SSIR mechanism.

3. **Impacts of Inflationary Factors**

Another primary driver for the revenue deficiency is the inflationary impact associated with the cost to serve and the increase in capital since the Company's last rate review in 2020. BH Nebraska Gas has worked diligently to manage capital spending. While BH Nebraska Gas has prudently managed its expenses since that time the Company has not been immune to the same cost increases our customers have faced. According to the Consumer Price Index, prices for all goods and services have risen approximately 21% since the Company's base rates were effective from the 2020 rate review.⁷

⁷ CPI Inflation Calculator: https://www.bls.gov/data/inflation_calculator.htm January 2021 through December 2024.

4. Increased Cost of Debt as a Result of Interest Rates

Due to the higher interest rate environment, the Company experienced an increased cost of debt and equity capital and must maintain financial integrity by recovering such cost increases as it relates to the Company in this proceeding. The current cost of debt has increased from the authorized 3.91% to a projected 4.71% at the end of the *Test Year*.

IV. Legal Authority and Request for Increase in Rates

A. Legal Authority for Fair and Reasonable Return

Under the governing laws of the United States, Nebraska law and United States Supreme Court precedent, BH Nebraska Gas is entitled to a fair and reasonable return on its property required for service to its customers. In determining rates pursuant to the Act, the Nebraska Public Service Commission must “give due consideration to the public need for adequate, efficient, and reasonable natural gas service and to the need of the utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provisions for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property.” *See e.g., 66-1825 Neb. Rev. Stat. § 66-1825. See also, Bluefield Waterworks and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) and *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944). The currently approved tariff rates of BH Nebraska Gas, if continued in effect, would not meet the standard established under Nebraska law and would result in the confiscation of the property of BH Nebraska Gas without due process of law in violation of the Fourteenth Amendment of the Constitution of the United States and of Article I, Section 3 of the Constitution of the State of Nebraska. BH Nebraska Gas is suffering and will continue to suffer irreparable injury so long as the existing rates continue in effect. If the Commission grants this Application, BH Nebraska Gas will have an opportunity to earn an overall return on its rate base of 7.63% and a return on common equity of 10.5%.

BH Nebraska Gas’ proposed rate increase is consistent with Section 66-1825(3) of the Act, which requires the Commission to “give due consideration to the public need for adequate, efficient, and reasonable natural gas service and to the need of the jurisdictional utility for revenue sufficient to enable it to meet the cost of furnishing the service, including adequate provisions for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property.”

B. Revenue Deficiency

BH Nebraska Gas is experiencing a revenue deficiency of \$34.9 million that will be addressed in this rate review proceeding. The Base Year for this Rate Review Application is January 1, 2024, through December 31, 2024. The Test Year adjusts the Base Year for known and measurable changes, as well as applying normalization adjustments, as required by the Act, and an annualized adjustment to correct for out-of-period billing entries. The Company is proposing to include in rate base capital projects that went into service after the end of the Base Year and through the end of 2025. The revenue deficiency for BH Nebraska Gas is supported by a

comprehensive revenue requirements study and applies the Company's current Cost Allocation Manual allocators for direct and indirect costs.

Revenue Deficiency	Capital Structure	ROE	Cost of Debt	Weighted Cost of Capital
\$34.9 million	50.52% Equity/ 49.48% Debt	10.5%	4.71%	7.63%

V. Rate Structure and Effectiveness

A. Rate Design.

BH Nebraska Gas completed a comprehensive Class Cost of Service. The rates and rate design are also supported by revenue proof and billing determinants verification. BH Nebraska Gas has designed its proposed rates to accomplish the following results:

- (1) The threshold between Tier 1 and Tier 2 volumetric rates for Residential customers is lowered;
- (2) Commercial customers are separated into two classes with a Small Commercial Service and Large Commercial Service, each with its own unique threshold between Tier 1 and Tier 2 volumetric rates;
- (3) The proposed Tier 1 volumetric rates for the three classes are not linked with each other, as they are under the current rates for all jurisdictional customers; and
- (4) The Tier 2 volumetric rates for all jurisdictional customers are set at the current rate of \$0.15 per therm.

BH Nebraska Gas requests that the Commission adopt the new rates contained in the proposed rate schedules included herewith and by reference made a part hereof. Specifically, the proposed rate schedules provide for a Customer Charge of \$31.00 per month for Residential customers, \$48.00 per month for Small Commercial customers and \$121.00 for Large Commercial customers.

In addition to the monthly customer charge, residential customers will pay \$0.42242, for the first 10 therms used in each month's billing cycle, and \$0.15000 for each additional therm used in that month's billing cycle. This charge is in addition to the cost of gas purchased and recovered under BH Nebraska Gas' Gas Cost Adjustment mechanism, through the Supplier Gas Costs recovered in the Choice Gas Program, or other charges approved by the Commission.

Commercial customers are being split into two classes to better align with customers' use of the system. Each class has its own unique threshold between the Tier 1 and Tier 2 volumetric rates.

Small Commercial customers will pay \$0.95940, for the first 20 therms used in each month's billing cycle, and \$0.15000 for each additional therm used in that month's billing cycle. This cost is in addition to the cost of gas purchased and recovered under BH Nebraska Gas' Gas Cost Adjustment mechanism, through the Supplier Gas Costs recovered in the Choice Gas Program, or other charges approved by the Commission.

Large Commercial customers will pay \$0.22484, for the first 500 therms used in each month's billing cycle, and \$0.15000 for each additional therm used in that month's billing cycle. This cost is in addition to the cost of gas purchased and recovered under BH Nebraska Gas' Gas Cost Adjustment mechanism, through the Supplier Gas Costs recovered in the Choice Gas Program, or other charges approved by the Commission.

The BH Nebraska Gas Rate Application proposes the following rate design:

BH Nebraska Gas Recommended Rate Design

Customer Class	Current Rates	Proposed Rates
Residential		
Customer Charge	\$15.45	\$31.00
Distribution Tier 1	\$0.50858 per therm, First 20 therms	\$0.42242 per therm, First 10 therms
Distribution Tier 2	\$0.15000 per therm, Over 20 therms	\$0.15000 per therm, Over 10 therms
Small Commercial		
Customer Charge	\$28.43	\$48.00
Distribution Tier 1	\$0.50858 per therm, First 40 therms	\$0.95940 per therm, First 20 therms
Distribution Tier 2	\$0.15000 per therm, Over 40 therms	\$0.15000 per therm, Over 20 therms
Large Commercial		
Customer Charge	\$28.43	\$121.00
Distribution Tier 1	\$0.50858 per therm, First 40 therms	\$0.22484 per therm, First 500 therms
Distribution Tier 2	\$0.15000 per therm, Over 40 therms	\$0.15000 per therm, Over 500 therms

Average Customer Bill Impacts

Customer Class	Average Month		Winter Month		Summer Month	
	Amt	%	Amt	%	Amt	%
Residential	\$6.27	9.4%	\$6.27	6.5%	\$6.27	13.7%
Small Commercial	\$6.29	4.4%	\$6.29	2.9%	\$6.29	6.7%
Large Commercial	\$100.52	8.8%	\$100.52	5.7%	\$100.52	14.6%

VI. Additional Rate Application Proposals

BH Nebraska Gas makes several proposals within the rate application as summarized below. For example, BH Nebraska Gas requests approval of regulatory mechanisms. Some of the BH Nebraska Gas proposed regulatory mechanisms require the Commission to renew and continue the regulatory mechanisms approved by the Commission in the past. However, as identified below, a couple of regulatory mechanisms are new to BH Nebraska Gas but are more common within the utility industry.

a. Regulatory Mechanisms

The regulatory mechanisms included within the Application are further supported by testimony and exhibits. The regulatory mechanisms within the Application include the following:

- SSIR - renewal of the existing SSIR mechanism as well as approval of proposed 2026 SSIR projects.
- High Efficiency Assistance Tool (“HEAT”) – approval of recovery of the third-party administrative costs in the annual spending cap; and
- Weather Normalization Adjustment Rider (“WNA”) – requesting approval of a new proposed Weather Normalization Adjustment Rider.

b. Deferred Accounting Treatment Approval

In addition to approval of the regulatory mechanisms, BH Nebraska Gas requests the Commission authorize Deferred Accounting Treatment for each of the following expense categories:

- Manufactured Gas Plant (“MGP”). One of the Deferred Accounting Treatments would authorize BH Nebraska Gas to establish a regulatory asset to record and track costs for future recovery of BH Nebraska Gas costs for Manufactured Gas Plant

research, testing, environmental monitoring cleanup, and other appropriate or necessary remediation costs.

- **Insurance Premiums**. The other Deferred Accounting Treatment requested by BH Nebraska Gas would authorize BH Nebraska Gas to establish a regulatory asset to record and track costs for future recovery of insurance premium cost increases.

c. **Other Rate Application Items**

The BH Nebraska Gas rate Application also includes BH Nebraska Gas proposals for the following:

- **EDIT** – BH Nebraska Gas proposes to refund Excess Deferred Income Taxes due to state of Nebraska tax changes;
- **Rate Area Adjustment** – BH Nebraska Gas proposes to move the town of Western, NE from Rate Area Five to Rate Area Three;
- **Rate Case Expenses** – BH Nebraska Gas proposes to recover rate case expenses to be incurred throughout this proceeding; and
- **Tariff Changes** – BH Nebraska Gas proposes several tariff changes.

d. **Compliance with Prior Orders**

BH Nebraska Gas reviewed prior Orders of the Commission and prepared its Rate Application in proceeding in compliance with the Commission's orders.

- **Low Use Commercial Customer Study** - As detailed in the testimony of Mr. Hyatt and Ms. Bassell-Herman, BH Nebraska gas has incorporated changes related to low-use Commercial customers.
- **Interim Rates** - BH Nebraska Gas will implement 100% of its proposed rates as interim rates, subject to refund, commencing on August 1, 2025.

VII. **Testimony in Support of Filing**

BH Nebraska Gas' direct testimony in support of its General Rate Filing is filed herewith.

The table below lists the Company witnesses providing testimony in support of the BH Nebraska Gas Rate Review Application.

WITNESS LIST AND PURPOSE OF TESTIMONY	
WITNESS	PURPOSE OF TESTIMONY
Tatyana V. Bannan Manager, Regulatory	SSIR Renewal, 2026 SSIR Application, HEAT, Rate Review Expense and Tariff Changes
Brooke N. Bassell-Herman Director, Regulatory	Background, Application Overview, Rate Application Drivers, Witness Introduction, Regulatory Mechanisms and Proposals, Application Items, Commission or Statutory Compliance Items, Interim Rates
Jennifer C. Bingaman Manager, Gas Pipeline and System Integrity	Safety Investment & Risk Ranking, Federal & State Regulations for Pipeline Safety, Mega Rule, DIMP, TIMP, DIIP and SSIR
Ken L. Crouch Senior Manager, Tax	ADIT, EDIT, NE Corporate Income Tax Reduction, EDIT Refund, Stored Gas Property Tax
Ethan J. Fritel Senior Regulatory Analyst	Billing Determinants including weather, revenue under current rates, and revenue under proposed rates.
Douglas N. Hyatt Manager, Regulatory	Class Cost of Service, Rate Design, Weather Normalization Adjustment Rider
Kevin M. Jarosz Vice President Nebraska & Iowa Operations	System Overview, Operations, Capital Additions, Capital Plan, SSIR Renewal and 2026 Application, Manufactured Gas Plant, Public Awareness Plan
Samantha K. Johnson Director, Regulatory	Revenue Requirement Study, CAM, Various Adjustments and Affiliate Transactions

Lori J. Mack Manager, Regulatory	Revenue Requirement – Rate Base
Adrien M. McKenzie FinCap	Return on Equity
Kris J. Pontious Senior Manager, Compensation	HR Employee and Executive Compensation Programs/Variable Compensation Programs
John J. Spanos Gannett Fleming Valuation and Rate Consultants, LLC	Depreciation Study
Tom D. Stevens VP Treasury	Capital Structure, Cost of Debt

VIII. Protective Order

Pursuant to Section 66-1829 of the Act and Commission Rule 006.01, BH Nebraska Gas is filing contemporaneously with this Rate Review Application a Motion for Protective Order regarding certain confidential and/or proprietary information that is being, and over the course of this proceeding may be, produced in connection with this case. *See Neb. Admin. Code, Title 291, Chapter 9, Rules 006.01 and 006.02.*

IX. Municipal Negotiation and Notices of Intent to Proceed Before Commission

In accordance with Subsection (3) of Section 66-1838 of the Act, BH Nebraska Gas hereby provides the notice required by the Act that it elects to forego its right to negotiate directly with the Municipalities located within its consolidated Rate Areas and instead desires to proceed with the review and approval of its Rate Review Application by the Commission.

X. Tariff Changes and Supporting Documentation

In support of this Rate Review Application, and as provided in Section 66-1838 of the Act, BH Nebraska Gas submits herewith the proposed revision to its Tariff to implement its proposed rate increases and other changes. BH Nebraska Gas requests Commission approval of its proposed tariffs to become effective at the conclusion of this proceeding.

XI. Request for Necessary Waivers

While BH Nebraska Gas believes this Rate Review Application to be in full accord with applicable laws, BH Nebraska Gas respectfully requests the Commission to grant waivers as necessary for the acceptance and approval of this Rate Review Application. In addition, contemporaneously with the Rate Review Application, BH Nebraska Gas has filed a Motion to

Waive the Commission's General rate filing requirements to permit filing a limited "paper" version of the Application.

XII. Cost Allocation Manual

Subject to Commission Rule 004.04G, BH Nebraska Gas requests that the Commission approve the Cost Allocation Manual between BH Nebraska Gas and BHSC provided as Application Exhibit 1, Section 3.

XIII. Agricultural, Interruptible, and High-Volume Customer Rates

BH Nebraska Gas is not proposing in this Rate Review Application to adjust rates for its Agricultural, Interruptible, or High-Volume customers in Nebraska. The rate setting process for such customers is governed by Neb. Rev. Stats. §§ 66-1810 (1) and (2) of the Act.

XIV. Rate Case and Other Surcharges

Pursuant to § 66-1841 of the Act, BH Nebraska Gas hereby requests continuing authority to collect its regulatory costs, including the Commission's assessment through a surcharge mechanism.

Specifically, BH Nebraska Gas requests Commission approval to implement the customer surcharges or recover amortized amounts set forth in the tariff or revenue requirement:

Commission Proceeding	Surcharge Name	Amortization or Surcharge Amount	Length of Surcharge
NG-124	Rate Review Expense	\$.05	36 months
NG-124	EDIT Refund	\$(0.68)	36 months
NG-124	SSIR Renewal & 2026 SSIR Charge	Residential: \$0.69 Small Commercial: \$1.21 Large Commercial: \$6.53	Renewal for 60 months; 2026 SSIR Rates continuing monthly
NG-124	Weather Normalization Adjustment Rider	TBD	TBD
NG-124	Manufactured Gas Plant Deferred Accounting Treatment	TBD	TBD
NG-124	Insurance Premium Deferred Accounting Treatment	TBD	TBD

XV. Conclusion

WHEREFORE, for the reasons set forth in this Rate Review Application along with supporting testimony, exhibits, studies, schedules, and other General rate filing requirements, BH Nebraska Gas requests that the Commission issue an order accepting and approving this Rate

Review Application, including its proposed rate schedules, tariff modifications, regulatory mechanisms, accounting treatment, surcharges, fees, and other proposals included herewith. Specifically, BH Nebraska Gas requests that the Commission approve an increase in its rates along with the other proposal set forth in the Rate Review Application including but not limited to the following:

- Proposed annual natural gas rate increase, based upon the Test Year ended December 31, 2024, as adjusted for known and measurable changes, in the amount of approximately \$34,923,246 as shown in Application Exhibit 1, Section 1;
- Proposed class cost of service study results and rate design set forth in the Rate Review Application and discussed in the direct testimony of various BH Nebraska Gas witnesses;
- Renewal of SSIR mechanism and approval of the proposed 2026 SSIR; and
- Other items include proposed revisions to the existing HEAT program, proposed WNA Rider, deferred accounting treatment for MGP and Insurance Premium costs, EDIT refunds, rate area adjustment for the town of Western, NE, recovery of actual rate case expenses, and proposed tariff changes.

BH Nebraska Gas respectfully requests that the rates set forth in the attached revised Tariff sheets submitted with this Rate Review Application be made effective after Commission approval pursuant to the Act.

Respectfully submitted,

BLACK HILLS NEBRASKA GAS, LLC
D/B/A BLACK HILLS ENERGY

By: /s/ Nick A. Wagner

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