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RECEIVED

August 1, 2019

AUG - 1 2019

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

Natural Gas Dept.

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 year's expenditures and true-up of both spending and revenues collected for the time period July 1, 2018 to June 30, 2019, 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 3 Capital expenditure level plus a true-up of both spending and revenues collected.

Year Two Progress:

As of June 2019 Black Hills Energy has replaced 249 fuel lines and purchased 26 fuel lines. This reflects the completion of an additional 205 lines from July 2018 to June 2019.

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Natural Gas Dept.

Dear Sir:

I have your letter of August 1, 1953, regarding the proposed sale of the gas rights to the land owned by you in the town of ...

The gas rights to the land in question are owned by the ...

I am sorry that I cannot give you a more definite answer at this time, but the matter is being reviewed by the ...

Sincerely,
[Signature]

Very truly yours,
[Signature]

Of the 671 farm taps identified by Black Hills Energy:

- 249 have been replaced
- 26 have been purchased at an average cost of \$10,943
- 17 have been identified for potential purchase; referenced as "Potential Purchase"
- 72 are in process to be scheduled for replacement of which 25 are impacted by crops that will affect scheduling; referenced as "In Process"
- 225 have been identified by partial inspection as needing to be replaced of which 72 are impacted by crops that will affect scheduling; referenced as "Needing to be Replaced"
- 67 are impacted by Northern Natural Gas Company's A-Line abandonment, requiring no further action at this time as they will probably be abandoned
- 15 are non-active, requiring no further action at this time as they will probably be abandoned

Black Hills Energy expects to replace or purchase the remaining 314 lines identified as "Potential Purchase", "In Process", and "Needing to be Replaced" over the remainder of 2019 through June 2020. Exhibit C included with this filing is a Customer Master List with the status of the 671 farm taps as of June 2019.

Year Two Summary:

The total number of fuel line replacements and purchases expected in Year Two was lower than anticipated mostly due to weather.

The first delay was in the last half of 2018 and was due to weather and an earlier end to the construction season in October which resulted in the replacement or purchase of an additional 98 lines compared the anticipated completion of 160-180 reported in last year's filing.

The second delay was due to an extremely cold and snowy winter carrying over into 2019, which was compounded by severe flooding in several different areas of the service territory of Black Hills Energy. Due to the flooding impact, more resources were focused on restoring service to the flood impacted areas.

In addition, a third delay occurred in July 2019 due to heavy rains and flooding in the several of the Company's service territories.

In spite of the weather delays in late 2018 and the first half of 2019, Black Hills Energy has made several changes to improve progress on the Farm Tap Safety Program. Black Hills Energy has contracted with InfraSource for a Coordinator/Planner and four crews solely dedicated to the Farm Tap Safety Program to keep the project moving forward.

These crews consist of workers who have previously worked on the Iowa Farm Tap Safety Program. The current focus of these crews is to focus on the 200 farm taps not impacted by crops. There are currently 92 farm taps that are impacted by crops that will affect scheduling. InfraSource plans on adding two additional crews after harvest to ramp up completion of the Farm Tap Safety Program.

Overall, we are now better positioned to address our remaining projects for the fall of 2019 and first half of 2020. 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 Three Plan Projection:

Of the 671 farm taps identified as of June 2019, Black Hills Energy’s focus will be on the remaining 314 lines identified as “potential purchase”, “in process”, and “needing to be replaced” over the remainder of 2019 and the first half of 2020. Less emphasis is being placed on remaining NNG A-line and non-active farm taps.

Barring any additional weather delays, the addition of the experienced InfraSource Coordinator/Planner and crews puts Black Hills Energy in a better position to complete the replacement and purchase of the farm tap within the three year period of the Farm Tap Safety Program.

Below is a table demonstrating the average cost to replace/purchase lines and the total estimated cost of the Farm Tap Replacement Program.

<u>Count</u>	<u>Status</u>	<u>Avg Length</u>	<u>Cost per ft</u>	<u>Cost per line</u>	<u>Total Cost</u>
249	Replaced	756			
26	Purchased	655	\$14.67	\$10,943	\$3,009,280
17	Potential Purchase	789	\$14.67	\$11,567	\$196,645
72	In Process	671	\$14.67	\$9,848	\$709,055
225	Needing to be Replaced	1,084	\$14.67	\$15,904	\$3,578,345
67	NNG A-Line	649	\$0.00	\$0	\$0
15	Non-Active	691	\$0.00	\$0	\$0
<u>671</u>		<u>842</u>	<u>\$13.27</u>	<u>\$11,167</u>	<u>\$7,493,325</u>

Costs through June 2019	\$3,009,280
Estimated Remaining costs to be recovered in surcharge	\$990,720
	<u>\$4,000,000</u>
Estimated Remaining costs not recoverable in surcharge	\$3,493,325
Total Farm Tap Safety Program Cost	<u>\$7,493,325</u>

As demonstrated above, The NNG A-lines and non-active require no further action that lowers the average cost of the program, but not the average cost of replacement/purchase.

Year Three Revenue Requirement Projection:

In accordance with the Commission's Order entered October 16, 2018 in Docket No. NG-0090.1 the authorized level of revenues for Year Two shall remain in effect as set forth in Tariff Sheet No 41, First Revised Sheet, until further order of the Commission. This was a result of a Joint Stipulation filed by Black Hills Energy and the Public Advocate in which both parties agreed that Black Hills Energy had been unable to complete the replacement or purchase of the number of farm taps that was anticipated by the parties' agreement in Commission Docket No. NG-0090, and that therefore, the proposed increase in the surcharge would result is a higher level of recovery to Black Hills than the level of its investment to date.

Therefore, the surcharge for each class for Years One and Two remained at:

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

The average overall impact to jurisdiction customers is calculated to be \$.10 in accordance with the Commission's Order entered on August 17, 2017 and the Final Tariff Sheet No 41, First Revised Sheet submitted September 20, 2017. The Final Tariff Sheets set the maximum surcharge average cap for all jurisdictional customers by year at:

- Year One \$.10
- Year Two \$.18
- Year Three \$.25

After a review of various tariff filings it was discovered that Tariff Sheet No 41, First Revised Sheet had not been updated to reflect the income tax rate change as a result TCJA of 2017 ordered in Docket No. NG-0095/PI-213. Exhibit A, lines 1-18 attached to this filing compares the approved average jurisdictional customer impact per Docket No. NG-0090 to the revised tax reform tax rate. The calculated average impact by customer is identified on Exhibit A, line 17. The change in calculated average impact by customer is identified on Exhibit A, line 18. There was no change to the year one average. There is a decrease of \$0.02 for the Years Two and Year Three averages. The recalculated maximum average jurisdictional customer by year is as follows:

- Year One \$.10
- Year Two \$.16
- Year Three \$.23

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 two changes to the language in the "TESTING AND REPLACEMENT SURCHARGE" section. The first change is to correct

maximum averages surcharge by year. The second change is to correct the years in which the surcharge could be recalculated. The First Revised Sheet No 41 indicated that the 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 September 2018 and September 2019. Collection of the surcharge is to end in 2020 at which time a Final Report will be filed with the Commission.

The attached schedules in Exhibits A & B summarize the calculations behind the Tariff Sheet 41 changes. Black Hills Energy requests approval to adjust the revenue requirement for Year Three to 389,101 (Exhibit A, line 31). The Year Three revenue requirement will increase the monthly surcharge by class to:

- Residential: \$.13 per month
- Commercial and Industrial: \$.32 per month
- Energy Options Firm: \$.61 per month

The attached revised tariff includes two additional changes to the language in the "TESTING AND REPLACEMENT SURCHARGE" section. The first change is to identify the Year Two surcharge to be the same as the Year One surcharge. The second change is to add the proposed Year Three surcharge by customer class.

Based on the forgoing, Black Hills Energy hereby submits, revised tariff Sheet No 41 and respectfully requests approval of the Year Three 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 Jason.Bennett@blackhillscorp.com, or call 402-221-2069.

Respectfully Submitted,



Jason Bennett
Manager of Regulatory & Finance - Nebraska

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

NEBRASKA FARM TAP REPLACEMENTS

NG-0090 8/22/2017

ESTIMATED CUSTOMER IMPACTS

FILED / APPROVED Before Tax Reform

FILED / APPROVED with Tax Reform

Line	Assumptions:				Sep 17-Jul 18	Aug 18 - Jun 19	Jul 19 - Oct 19
					Year One	Year Two	Year Three
1	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	\$	7,156	Avg Cost for BHE owned lines			
6	Farm tap replacements, beginning of year						
7	New Investment (\$4 million total, replaced 33% per year)						
7a	Total Investment at year end						
8	Annual depreciation expense						
9	Net plant at year end						
10	<i>Farm Tap Tracker Surcharge:</i>						
11	Carrying Charge (((0.52*9.6%)/(1-0.2717 0.4008))+(0.48*4.4%))						
12	Annual depreciation expense (3.62%)						
13	Deferred Testing costs (estimated cost of 214 lines per year)						
14	Total Revenue Requirement						
15	Plus Prior Year Under/(Over) Collected Revenues to maintain allowed cap						
16	Adjusted Surcharge						
17	Average impact on 201,605 customers per month Per Tariff Filing	\$	0.10	\$	0.16	\$	0.23
18	Average impact on 201,605 customers per month per Tax Reform	\$	-	\$	(0.02)	\$	(0.02)
19	Reconciliation and True-up by Year						
20	Farm tap replacements, beginning of year						
21	New Investment (\$4 million total, replaced 33% per year)						
22	Total Investment at year end						
23	Annual depreciation expense						
24	Net plant at year end						
25	<i>Farm Tap Tracker Surcharge:</i>						
26	Carrying Charge (((0.52*9.6%)/(1-0.2717 0.4008))+(0.48*4.4%))						
27	Annual depreciation expense (3.62%)						
28	Deferred Testing costs (estimated cost of 214 lines per year)						
29	Total Revenue Requirement						
30	Plus Prior Year Under/(Over) Collected Revenues to maintain allowed cap						
31	Adjusted Surcharge						
32	Actual (Sept - Aug)						
33	Over/(Under) Collected						
34	Average monthly impact on 201,605 Year 1 customers, 203,828 Year 2 customers, and 205,396 Year 3 customers	\$	0.10	\$	0.07	\$	0.16

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	\$301,879			
Less Year 1 Over Collected	(\$121,758)			
Adjusted Sur charge	\$423,637			
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	\$324,127	\$68,858	\$30,653	\$423,637
Current number of customers	183,644	16,263	3,921	203,828
Monthly Surcharge by Class	\$ 0.15	\$ 0.35	\$ 0.65	\$ 0.17

Year Three:

Surcharge Revenue	\$469,746			
Less Year 2 Over Collected	(\$79,133)			
Adjusted Sur charge	\$390,613			
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	\$298,859	\$63,490	\$28,263	\$390,613
Current number of customers	185,025	16,520	3,851	205,396
Monthly Surcharge by Class	\$ 0.13	\$ 0.32	\$ 0.61	\$ 0.16
Increase	0.05	0.11	0.23	0.05

Line	Code	Description	Quantity	Unit	Price	Amount	Tax	Total
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10	010
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LINE TESTING DATA																																																																			
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960	South	Non-Active	11105 US Hwy 149402011		-82 219211	-96 782620	No	No	Orange Berg	900 FT		900	900	100	No	No	No																																																		
961	South	Non-Active	1198 S 115th St 149402047		-82 218958	-96 811811	Yes	Yes	PE2400 MCOPE	200 FT		200	200	Pumping	100	No	No																																																		
962	South	Non-Active	1108 S 115th St 149402043		-82 219228	-96 810001	No	No	Orange Berg	100 FT		100	100	100	No	No	No																																																		
963	South	Non-Active	11700 Olive Cir 149412228		-82 262452	-96 884722	No	No	Orange Berg	100 FT		100	100	100	No	No	No																																																		
964	South	Non-Active	C 5311 17th St 149402089		-82 268728	-96 882858	No	No	Orange Berg	100 FT		100	100	100	No	No	No																																																		
965	South	Non-Active	1418 Bonaire	149402022	-82 268728	-96 882858	No	No	Orange Berg	100 FT		100	100	100	No	No	No																																																		
966	South	Non-Active	2182 Van Dine Rd 149402080		-82 27847	-96 8984	No	No	Orange Berg	100 FT		100	100	100	No	No	No																																																		
967	South	Non-Active	2644 S 16th St 149402127		-82 268152	-96 875217	No	No	Orange Berg	100 FT		100	100	100	No	No	No																																																		
968	South	Non-Active	337 JEFFERSON NGM221792		-82 1118	-97 1471	Yes	Yes	PE2400 MCOPE	100 FT	1500	1000	Pumping	100	No	No	Yes																																																		
969	South	Non-Active	2088 19th St 149402084		-82 265008	-96 870823	Yes	No	Orange Berg	100 FT		100	100	100	No	No	No																																																		
970	South	Non-Active	1180 E US Hwy 149402120		-82 26918	-96 88001	No	No	Orange Berg	100 FT		100	100	100	No	No	No																																																		
971	South	Non-Active	1183 E US Hwy 149402065		-82 26276	-96 77738	No	No	Orange Berg	100 FT		100	100	100	No	No	No																																																		
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Costs through 3/31/2019					\$3,096,760																																																														
Estimated Replacing costs to be recommended in summary					\$966,176																																																														
Estimated Replacing costs not recommended in summary					\$4,008,000																																																														
Total from 1.14.2019 Program Cost					\$8,070,936																																																														

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.
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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 September 1, 2017 through August 31, 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 September 1, 2018 and 2019. The surcharge average for all jurisdictional customers will not exceed \$0.10 for year one, \$0.16 for year two, and \$0.23 for year three.
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In year one and year two, 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 three, the surcharge for each class will be:

- Residential: \$.13 per month
 - Commercial and Industrial: \$.32 per month
 - Energy Options Firm: \$.61 per month
-

ANNUAL APPLICATION REQUIREMENTS	Each proposed revision in the surcharge shall be accomplished by filing an application before August 1 of each year to take effect September 1 (the "Annual Application"). Annual Applications shall contain the following items:
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- 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.
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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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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 September 1, 2017 through August 31, 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 September 1, 201~~89~~ and 20~~1920~~. The surcharge average for all jurisdictional customers will not exceed \$0.10 for year one, \$0.1~~68~~ for year two, and \$0.2~~35~~ for year three.

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

- Residential: \$.13 per month
- Commercial and Industrial: \$.32 per month
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