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**BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION**

IN THE MATTER OF THE )  
COMMISSION TO CONDUCT A )  
REVIEW OF GAS SUPPLY COST )  
ADJUSTMENT SCHEDULES )  
IMPLEMENTED BY BLACK HILLS )  
NEBRASKA GAS, LLC, d/b/a BLACK )  
HILLS ENERGY, RAPID CITY, )  
SOUTH DAKOTA, PURSUANT TO )  
NEB. REV. STAT. § 66-1854. )

Application No. NG-119

**NOTICE OF FILING OF PUBLIC ADVOCATE’S REVIEW OF 2023  
COMMISSION GSCA AUDIT OF BHE**

The Public Advocate, Intervenor in the above-referenced proceeding, does hereby give notice of filing his “*Review of the 2023 Commission GSCA Audit of BHE*” prepared by Blue Ridge Consulting Services on behalf of the Public Advocate. Eight copies of the Review, plus an electronic copy in PDF and Microsoft Word format, are being submitted herewith in accordance with 291NAC9-004.12. Electronic and/or hard copies are being provided, as appropriate, in accordance with the service list.

Dated this 26<sup>th</sup> day of September 2023.

PUBLIC ADVOCATE

By: /s/ William F. Austin

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the Public Advocate's *Review of the 2023 Commission GSCA Audit of BHE* was served electronically on this 26<sup>th</sup> day of September 2023.

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*/s/ William F. Austin*  
William F. Austin

**Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy**  
**Docket No. NG-119**  
**Review of 2023 Commission GSCA Audit of BHE**

**Introduction**

Blue Ridge Consulting Services, Inc. (“Blue Ridge”) reviewed the final reports of the 2023 gas supply cost adjustment (GSCA) audit of Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (BHE, “Black Hills,” or “Company”), conducted on behalf of the Nebraska Public Service Commission (“Commission” or PSC), filed in Docket No. NG-119. Blue Ridge performed its review on behalf of the Nebraska Public Advocate (PA).

**Background**

On March 7, 2023, the Commission opened Docket No. NG-119 on its own motion to receive and monitor filings regarding GSCA schedules filed by Black Hills. Jurisdictional utilities are specifically authorized to implement GSCA rate schedules, and the Commission may modify a jurisdictional utility’s GSCA rate schedule and is specifically authorized to examine and audit all accounts of jurisdictional utilities.

The Commission determined to contract with an auditor to conduct an informal review. The scope for the Commission’s auditor was to include these activities:

1. Review of all gas supply purchase contracts in effect from January 1, 2020, to present and costs thereof.
2. Review of all contracts and costs for transportation and storage related to gas procured under contracts in Item No. 1 above.
3. Review of all Gas Supply Cost Adjustment filings and calculations from January 1, 2020, to present including, but not limited to, any allocation of overhead costs associated with carrying out and managing gas purchase, gas transportation contracting and scheduling, and gas operations.
4. Determine how contract price and volumes are allocated among jurisdictions for contracts referenced in Item Nos. 1 and 2 above.
5. Trace gas costs to general ledger.
6. Trace revenues to general ledger.
7. Trace Gas Supply Cost Adjustment to customers’ bills (sample of bills).
8. As related to some items above, conduct transaction sampling to trace individual transactions from their origin (payments to suppliers, etc.) to their recognition and recovery in rates.
9. Review prudence of purchasing strategy and approach to natural gas procurement and hedging, which may include examination of gas costs beyond the period described in Item Nos. 1 and 3.

Based on the scope, the Commission engaged Bates White, LLC (“Bates White”) to perform a management review audit that (1) reviewed the Company’s approach to natural gas procurement and hedging, (2) assessed at a high-level the processes involved in #1, (3) reviewed the results of the procurement approach during the audit period (January 1, 2020, to the report date (August 28, 2023), and (4) assessed at a high level the results of their review in #3. In addition, Horne LLP conducted certain financial and accounting audit procedures (such as reviewing gas supply purchase contracts, calculations, allocations; tracing costs and revenues to general ledger; tracing GSCA to customers’ bills; and sampling individual transactions to trace from origin to recognition and recovery in rates).

**Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy**  
**Docket No. NG-119**  
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**Conclusions and Recommendations**

*General Comment*

Overall, the GSCA Audit Report indicates that BHE has done a good job in establishing and enforcing policies and procedures regarding the purchase of the gas supplies needed for its Nebraska distribution system. Further, the report supports the conclusion that BHE has acted prudently in making purchases of its gas supplies for its system. It also includes a number of very worthwhile recommendations to which BHE will hopefully give serious consideration. All of the above is good news for ratepayers.

*2021 Polar Vortex*

Blue Ridge's initial concern, after reviewing the drafts, related to the lack of a separate discussion of the 2021 Polar Vortex, alias Storm Uri, and BHE's response thereto. Storm Uri was one of the most significant weather events to occur in Nebraska in decades. Keeping the gas flowing in BHE rate areas 1, 2, and 3 in Nebraska during the time of the storm will cost BHE's ratepayers \$80 million in gas costs and interest spread over a three-year period.

Blue Ridge believes that this particular event, its ramifications, and the Company's steps to prevent or mitigate such costs—should any similar weather event recur—warranted discrete discussion. The Bates White report draft reviewed by Blue Ridge had a total of ten passing references to Storm Uri, with perhaps the most concerning on page 23, where Storm Uri is mentioned in the context of suppliers being less willing to offer pricing terms that help insulate customers because they wish to be in the position to benefit from price volatility. The report states specifically that "BHEC has not altered its planning to account for these conditions. . . ."

While our concerns were shared with Black Hills and Bates White and modifications were made to the final report, the Bates White final report did not place significant emphasis on this event and any steps that have been taken or are contemplated to mitigate a future impact on ratepayers.

*Public Redacted Report*

Blue Ridge believes the redactions of the Bates White public report were excessive. While certain data, such as gas supply contract pricing, must be kept proprietary, the report weighed heavily on incorporating such redacted data in the reported analysis and conclusions. It is counterintuitive to produce a report funded by ratepayers that the ratepayers are, to a great extent, not allowed to read. Furthermore, redacting conclusions makes it difficult for the reader to understand how recommendations are supported. Blue Ridge recommends that the Commission require the Company to justify the extensive redactions, possibly reword portions of the report to avoid redaction, and file another public report with less redaction.

*Future Audits*

While the reports are concluded and no further activity is anticipated regarding the reviewed items, Blue Ridge presents these observations and recommendations from its review of the Bates White management review that may be beneficial in any similar, future audits:

1. Bates White's ex-post test of hedge effectiveness (Bates White, pp. 55-62) was used to determine the prudence of the utility's hedging actions. Future prudence review should consider to what extent the utility's hedging actions cost effectively identify, quantify, and mitigate the risks that the utility faces in meeting its natural gas planning objectives for (1) reasonably priced gas, (2) high reliability, and (3) mitigation of price volatility.

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2. Any future review should consider incorporating discussion regarding similar reviews that the Company's LDC affiliates in other jurisdictions have experienced or are experiencing.
3. Any future review should consider a deeper look into the historical basis differences between Henry Hub and the Company's delivery points on its pipelines. For example, a major issue of concern would exist if a significant basis difference existed prior to Storm Uri that was unhedged.
4. Any future review should consider additional discussion on the frequency of the severe weather experienced during the audit period. An occurrence of once every 10 years would necessitate a different response from an occurrence of once every 100 years.

We appreciate the opportunity to participate in the audit process and to review and comment upon the Bates White and Horne reports.