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April 15, 2022

Col. Thomas Golden (Ret.)  
Executive Director  
Nebraska Public Service Commission  
1200 N Street, Suite 300  
Lincoln, NE 68508

**Re: Black Hills Nebraska Gas LLC d/b/a Black Hills Energy  
Docket No. NG-112.1 –Annual Surveillance Report**

Dear Mr. Golden:

On March 1, 2022, pursuant to the Order Approving Application entered December 14, 2021, (“SSIR Order”) in Commission Application No. NG-112.1, and related Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“Black Hills Energy”) SSIR Tariff Sheet Nos 127 – 131, Black Hills Energy submitted its annual surveillance report to the Nebraska Public Service Commission (“Commission”).

On April 4, 2022, the Nebraska Public Advocate (“Public Advocate”) submitted a confidential version of the Public Advocate’s “Review of 2021 Annual Surveillance Report” (“Report”) and notice thereof. The Report included various conclusions and recommendations.

Black Hills Energy provides the following response to the Report in an effort to address the recommendations and concerns raised in the Report. The following responses of Black Hills Energy are provided in a manner consistent with the order of appearance in the Report.

❖ **Public Advocate Report Recommendation - Calculations 1 and 1A**

**Report Recommendation:** Black Hills Energy should modify its reference to reflect how it calculated the Realized Actual Return on Equity. Black Hills Energy supporting Excel file should also provide the actual formula instead of hard coded values.

**Report Recommendation:** Black Hills Energy’s supporting Excel file should link values carried to other spreadsheets.

**Black Hills Energy’s Response:** Black Hills Energy has modified references to more accurately reflect the calculations within and further provides an updated confidential version of Black Hills Energy’s surveillance model with formulas included.

❖ **Public Advocate Report Recommendation - Calculations 2 and 3**

**Report Recommendation:** Black Hills Energy’s supporting Excel file should link values carried to other spreadsheets.

❖ **Black Hills Energy’s Response:** Black Hills Energy provides an updated confidential version of Black Hills Energy’s surveillance model with formulas included. **Public Advocate Report Recommendation - Calculation 4:**

**Report Recommendation:** Black Hills Energy should modify its reference to reflect how it calculated the Realized Actual Return on Equity. Black Hills Energy’s supporting Excel file should also provide the actual formula instead of hard-coded values.

The calculation should be modified to include the actual debt-to-equity ratio, actual cost of long-term debt, and actual return on equity. Reporting on the actual WACC provides important information on whether Black Hills Energy is over- or under-earning.

**Black Hills Energy’s Response:** As stated above, Calculation 1 now contains modified references with formulas included. Additionally, Calculation 4 now contains modified references with formulas included in the updated confidential version of Black Hills Energy’s surveillance model.

“Realized Actual Return on Equity”, Calculation 1, Line 4, does not include the authorized ROE of 9.5% in its derivation, as stated in the Report. Rather, it is calculated based on “Realized Actual Rate of Return”, Calculation 1, Line 3, less “Long Term Debt”, Calculation 4, Line 1, Col(E), the difference divided by the actual “Equity” percentage on Calculation 4, Line 2, Col(C).

Black Hills Energy’s equity capitalization ratio shown on Calculation 4 is based upon actuals for the period ending 2021.

The actual WACC or Realized Rate of Return, is shown on Calculation 1, Line 3, and is calculated as “Net Jurisdictional Operating Earnings”, Calculation 3, Line 33, divided by “Total Rate Base”, Calculation 2, Line 19.

In addition, Black Hills Energy has included two additional tabs in Black Hills Energy’s surveillance model. Both tabs are marked as confidential and provide additional supporting data to the Calculations and are provided to facilitate the Public Advocate’s review of Black Hills Energy’s annual surveillance filing. These tabs will be included in future annual surveillance filings.

❖ **SSIR Project Status**

On March 8, 2022, the Public Advocate requested via email, and with reference to Black Hills Energy Tariff Sheet No. 128, an update of current calendar year’s (2022) SSIR Project information. On the same day, Black Hills Energy responded to the Public Advocate and indicated current information to be consistent with like information filed in Application No. NG-112.1 on August

2, 2021, and further, any updates to current year information would be limited as the traditional construction season had not yet begun. Further, Black Hills Energy committed to provide capital spending amounts current, as of the most recent close, and did so on March 17, 2022.

During Black Hills Energy's most recent rate review, Application No. NG-109, the surveillance reporting requirement was revised from a quarterly to annual basis. As such, Black Hills Energy agrees and believes the tariff language referenced, related to current year's SSIR information, is no longer relevant and should be revised.

Any status report, demonstrating actual versus planned costs and in-service dates, referenced by the Public Advocate, is identified as part of Black Hills Energy's Annual Application pursuant to the NE Tariff Sheet No. 127.

Black Hills Energy includes with this filing a red-lined tariff page demonstrating proposed language. Black Hills Energy is prepared to file these revisions for the Commission's consideration once reviewed by the Public Advocate.

- ❖ Attachment 1 to this letter is Black Hills Energy's Confidential surveillance model, updated as noted above.
- ❖ Attachment 2 to this letter is a sample clean and red-lined NE Tariff Sheet No. 128 to be filed in the near future in compliance with the report.

Please contact me at (402) 858-3561 if you have any questions or need additional information.

Sincerely,

/s/ Tyler E. Frost

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Manager of Regulatory & Finance  
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(402) 858-3561

and

/s/ Douglas J. Law

Douglas J. Law, NE Bar #19436  
Associate General Counsel  
Douglas.law@blackhillscorp.com  
(402) 221-2635

cc: William F. Austin, Esq., Nebraska Public Advocate  
Nichole Mulcahy, Director of Natural Gas Department, NPSC

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**RATE SCHEDULES AND OTHER CHARGES  
SYSTEM SAFETY AND INTEGRITY RIDER (SSIR)**

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ANNUAL  
APPLICATION  
AND ANNUAL  
SURVEILLANCE  
FILINGS  
(Continued)

- C. The Commission shall hold a hearing on the Annual Application at which the Public Advocate shall present his or her report and shall act as trial staff before the Commission. The Commission shall issue an order to become effective not later than January 1 of the year following the filing of the Annual Application. If the Commission finds that the Annual Application complies with the requirements of this SSIR Tariff, the Commission shall enter an order authorizing the Company to collect the proposed System Safety and Integrity Rider Charge, including any SSIR True-Up Amount and any Deferred SSIR Balance, effective on January 1 of the following year.
- D. The Company shall make an annual surveillance filing within sixty 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.

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DEFINITIONS

- A. "Deferred SSIR Balance" shall be equal to the balance, positive or negative, of SSIR revenues at the end of a particular calendar year less the Eligible System Safety and Integrity Costs as projected by the Company for that particular calendar year, plus monthly interest calculated on that balance at a rate equal to the then current rate of interest on pipeline refunds established by the Federal Energy Regulatory Commission.
- B. "Eligible System Safety and Integrity Costs" shall mean (1) a return, at a percentage equal to the Company's currently authorized weighted average cost of capital grossed up for taxes, on the projected increase in the jurisdictional component of the month ending net plant in-service balances associated with the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge shall be in effect, exclusive of all plant in-service included in the determination of the revenue requirements approved in the Company's last general rate case; (2) the plant-related ownership costs associated with such incremental plant investment, including depreciation, accumulated deferred income taxes, and all taxes including income taxes and property taxes; and (3) the projected jurisdictional component of the operation and maintenance expenses related to the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge shall be in effect. The return and income taxes and plant related costs associated with

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**RATE SCHEDULES AND OTHER CHARGES  
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- D. The Company shall make ~~an~~ annual surveillance filings within sixty 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 current calendar year's SSIR Project costs, projected in-service dates, and the expected schedule over the remainder of the calendar year.~~

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- B. "Eligible System Safety and Integrity Costs" shall mean (1) a return, at a percentage equal to the Company's currently authorized weighted average cost of capital grossed up for taxes, on the projected increase in the jurisdictional component of the month ending net plant in-service balances associated with the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge shall be in effect, exclusive of all plant in-service included in the determination of the revenue requirements approved in the Company's last general rate case; (2) the plant-related ownership costs associated with such incremental plant investment, including depreciation, accumulated deferred income taxes, and all taxes including income taxes and property taxes; and (3) the projected jurisdictional component of the operation and maintenance expenses related to the Projects for the particular calendar year in which the System Safety and Integrity Rider Charge shall be in effect. The return and income taxes and plant related costs associated with