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Lincoln, NE 68501
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February 27, 2019

REDACTED PUBLIC VERSION

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

Re: Black Hills Gas Distribution, LLC – Nebraska
d/b/a Black Hills Energy
Docket No. NG-0078 – December 31, 2018 Quarterly Surveillance Report

Dear Mr. Hybl:

Pursuant to the Order Approving Application, In Part entered on October 28, 2014 and the Order Modifying Order Approving Application, In Part entered on November 4, 2014 in Docket No. NG-0078, Black Hills Gas Distribution, LLC d/b/a Black Hills Energy (“BHGD-NE”) hereby submits for filing with the Nebraska Public Service Commission (“Commission”) the quarterly surveillance report.

As stated in the Order Modifying Order Approving Application, in part entered on November 4, 2014:

“SourceGas shall make quarterly surveillance filings within sixty (60) days of the end of each quarter rather than the forty-five (45) days set forth in the final order. Such filing 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 should include an update regarding the status of the SSIR projects costs, in-service dates, and the expected schedule over the ensuing duration of the SSIR.”

BHGD-NE prepared the quarterly surveillance report using the following six (6) calculations:

- Calculation 1: For the most recent quarter-ending period, include 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 quarter-ending period, the 12 month total revenue, weather normalized, shown separately for the non-SSIR and SSIR tariff components.
- Calculation 3: For the most recent quarter-ending period, the 12-month total of operating and maintenance expenses shown by FERC Account including depreciation expenses shown by function.

Calculation 4: For the most recent quarter-ending period, the 12-month total operating income shown separately for the composite, SSIR, and non-SSIR components.

Calculation 5: For the most recent quarter-ending 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 6: For the most recent quarter-ending period, the most recent weighted average cost of capital including the outstanding balances for the capital structure (long-term debt and common equity); the cost of debt; and the most recently authorized rate of return on common equity for the Nebraska regulatory jurisdiction.

These period end calculations are consistent with the methodology used in BHGD-NE's last general rate case, Docket No. NG-0067.

Attachment 1 to this letter is the six (6) calculations using a period-end rate base.

Please contact me at (402) 858-3560 if you have any questions or need additional information.

Sincerely,



Jason Bennett
Manager, Regulatory

Enclosures

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

Black Hills Gas Distribution, LLC - Nebraska Operator
Calculation of Revenue Deficiency
Base Year - 12 Months Ending December 31, 2018
Period End Rate Base

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Total Jurisdictional

Line No.	Description (A)	Composite Rate Base (B)	SSIR Rate Base (C)	Base Year Excluding SSIR (D)	Reference
1	Net Jurisdictional Operating Earnings	\$7,260,898	\$3,721,620	\$3,539,279	Calculation 4
2	Total Rate Base (Period Ending)	\$147,418,462	\$44,412,179	\$103,006,284	Calculation 4
3	Realized Actual Rate of Return	4.93%	8.38%	3.44%	Line 1 / Line 2
4	Realized Actual Return on Equity	[REDACTED]			Line 3 - Calculation 6 Calculation 6

Black Hills Gas Distribution, LLC - Nebraska Operations
Revenue Requirement Calculation
Base Year - 12 Months Ending December 31, 2018
Period End Rate Base

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Attachment 1
Calculation 1A
Page 1 of 1

Line No.	Description (A)	Jurisdictional (B)	SSIR (C)	Jur Non - SSIR (D)	Reference
1	Base Year:				
2	Return on Rate Base	\$10,473,272	\$3,155,241	\$7,318,031	Calculation 5
3	Operations & Maintenance Expenses	16,076,586	-	16,076,586	Calculation 3A
4	Administrative & General Expenses	8,327,164	-	8,327,164	Calculation 3A
5	Taxes Other Than Income	1,323,976	224,875	1,099,100	Calculation 3A
6	Depreciation & Amortization Expenses	7,807,473	1,186,018	6,621,455	Calculation 3B
7	Provision for Income Tax	2,803,477	844,592	1,958,884	Fed - State Income Tax - WP
8					
9	Total Revenue Requirement	\$46,811,947	\$5,410,726	\$41,401,221	Sum Lines 2 - 7
10	Other Revenues	(2,081,913)	0	(2,081,913)	Calculation 4
11					
12	Net Cost of Service				Line 8 + Line 9
13					
14	Jurisdictional Base Rate Revenue	\$40,319,250	\$6,188,399	\$34,130,851	Calculation 4
15					
16	Revenue Increase / (Decrease)	\$4,410,783	(\$777,673)	\$5,188,456	Line 12 - Line 14

Black Hills Gas Distribution, LLC - Nebraska Operations
Normalized Revenue
Base Year - 12 Months Ending December 31, 2018
Period End Rate Base

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Line No.	Class (A)	Base Year Margin Revenue (B)	Adjustments (C)	Adjusted Base Year Margin Revenue (D)	SSIR Margin Revenue (E)	Adjusted Base Year Excluding SSIR Margin Revenue (F)
1	Jurisdictional Base Rate Revenue					
	TCJA Refund	(1,219,957.30)			(293,263.00) (3)	(926,691.30) (4)

Notes

- (1) From Revenue Models
- (2) Weather normalization adjustment
- (3) SSIR one time 7 month revenue reduction (Jan - July)
- (4) Base Rate revenue credit Jan - Dec

Black Hills Gas Distribution, LLC - Nebraska Operations
Operating Expenses
Base Year - 12 Months Ending December 31, 2018
Period End Rate Base

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Line No.	FERC Account Description	FERC Account	Total State			Total Jurisdictional		
			Base Year	SSIR	Base Year Excluding SSIR	Base Year	SSIR	Base Year Excluding SSIR
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
1	Transmission Expense							
2	Operation Supervision & Engineering	850	-	-	-	-	-	-
3	System Control & Load Dispatching	851	-	-	-	-	-	-
4	Mains Expense	856	-	-	-	-	-	-
5	Measuring & Regulating Station Expense	857	-	-	-	-	-	-
6	Transmission and Compression by Others	858	-	-	-	-	-	-
7	Other Expense	859	-	-	-	-	-	-
8	Maintenance of Mains	863	-	-	-	-	-	-
9	Maintenance of Measuring & Regulating Station Expense	865	-	-	-	-	-	-
10	Distribution Expense							
11	Operation Supervision & Engineering	870	1,893,610	-	1,893,610	1,501,318	-	1,501,318
12	Distribution Load Dispatching	871	2,794	-	2,794	1,787	-	1,787
13	Dist Fuel/Power Compr Station	873	-	-	-	-	-	-
14	Mains & Services Expense	874	3,961,865	-	3,961,865	3,155,390	-	3,155,390
15	Measuring & Regulating Station Expense -General	875	349,311	-	349,311	250,985	-	250,985
16	Measuring & Regulating Station Expense - Industrial	876	23,727	-	23,727	18,142	-	18,142
17	Measuring & Regulating Station Expense - City Gate Check Station	877	152,643	-	152,643	109,676	-	109,676
18	Meter & House Regulator Expense	878	906,611	-	906,611	693,209	-	693,209
19	Customer Installation Expense	879	487,910	-	487,910	487,910	-	487,910
20	Other Expense	880	6,657,968	-	6,657,968	5,227,284	-	5,227,284
21	Rents	881	27,587	-	27,587	21,659	-	21,659
22	Maintenance Supervision & Engineering	885	25,833	-	25,833	20,702	-	20,702
23	Maintenance of Structures & Improvements	886	2,950	-	2,950	131,695	-	131,695
24	Maintenance of Mains	887	113,976	-	113,976	86,529	-	86,529
25	Maintenance of Measuring & Regulating Station Expense - City Gate Check Stat	891	180,338	-	180,338	-	-	-
26	Maintenance of Services	892	211,322	-	211,322	211,322	-	211,322
27	Maintenance of Meters & House Regulators	893	535,156	-	535,156	409,188	-	409,188
28	Maintenance of Other Equipment	894	141,152	-	141,152	110,821	-	110,821
29	Customer Accounts Expense, Customer Service and Information and Sales							
30	Meter Reading Expense	902	507,256	-	507,256	455,038	-	455,038
31	Customer Records & Collection Expenses	903	2,491,985	-	2,491,985	2,235,456	-	2,235,456
32	Uncollectible Accounts	904	361,518	-	361,518	324,303	-	324,303
33	Miscellaneous Customer Accounts Expenses	905	59,480	-	59,480	53,357	-	53,357

Black Hills Gas Distribution, LLC - Nebraska Operations
Operating Expenses
Base Year - 12 Months Ending December 31, 2018
Period End Rate Base

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Line No.	FERC Account Description	FERC Account	Total State			Total Jurisdictional		
			Base Year	SSIR	Base Year Excluding SSIR	Base Year	SSIR	Base Year Excluding SSIR
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
34	Customer Service Supervision	907	31,014		31,014			
35	Informational & Instructional Advertising Expenses	909	1,933	-	1,933	26,726	-	26,726
36	Miscellaneous Customer Service & Informational Expenses	910	217,828	-	217,828	176,700	-	176,700
37	Demonstration & Selling Expense	912	297,364	-	297,364	241,218	-	241,218
38	Advertising Expense	913	155,538	-	155,538	126,171	-	126,171
39	Administrative and General							
40	Administrative & General Salaries	920	5,721,294	-	5,721,294	4,636,865	-	4,636,865
41	Office Supplies & Expenses	921	566,768	-	566,768	459,341	-	459,341
42	Outside Services Employed	923	1,422,590	-	1,422,590	1,152,949	-	1,152,949
43	Property Insurance	924	461,340	-	461,340	364,679	-	364,679
44	Employee Pensions & Benefits	926	244,706	-	244,706	198,324	-	198,324
45	Franchise Requirements	927	-	-	-	-	-	-
46	Regulatory Commission Expenses	928	1,112	-	1,112	1,112	-	1,112
47	Miscellaneous General Expenses	930.2	1,016,370	-	1,016,370	823,725	-	823,725
48	Rents	931	851,582	-	851,582	690,171	-	690,171
49	Taxes, Other Than Income	408.1	1,676,121	282,328	1,393,793	1,323,976	224,875	1,099,100
50	Labor - Payroll Taxes		(48,021)	-	(48,021)	(38,919)	-	(38,919)
51	Ad Valorem Tax Expense		1,724,142	282,328	1,441,814	1,362,895	224,875	1,138,019
52	TOTAL OPERATING EXPENSE							

Black Hills Gas Distribution, LLC - Nebraska Operations
Depreciation & Amortization Expense
Base Year - 12 Months Ending December 31, 2018
Period End Rate Base

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Line No.	Function	Base Year Total State				Total Jurisdictional			
		Gross Plant As Adjusted (1)	Less: CWIP Retirements	Depreciable Plant As Adjusted	Current Depreciation Rate	Depreciation Expense at Current Rates	Capitalized Depreciaton Expense	Total Depreciation Expense	Depreciation Expense at Current Rates
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1	Distribution	\$209,119,292	\$0	\$209,119,292	3.00%	\$6,273,579		\$6,273,579	\$4,925,494
2	Distribution - AMR	6,918,281	0	6,918,281	5.00%	345,914		345,914	264,491
3	General	41,225,172	0	41,225,172	7.82%	3,223,808		3,223,808	2,612,759
4	General - Billing	0	0	0	10.00%	0		0	0
5	Intangible	194,493	0	194,493	3.00%	5,835		5,835	4,729
6	Total	\$257,457,238	\$0	\$257,457,238		\$9,849,136	\$0	\$9,849,136	\$7,807,473

Notes

(1) Refer to Workpaper Total State Plant In Service, Column F, excluding land plant accounts.

Black Hills Gas Distribution, LLC - Nebraska Operations
Total Jurisdictional Revenue Requirement
Base Year - 12 Months Ending December 31, 2018
Period End Rate Base

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Attachment 1
Calculation 4
Page 1 of 1

Line No.	Description (A)	Adjusted Base Year (B)	SSIR Adjustments (C)	Adjusted Base Year Excluding SSIR (D)	References (E)
1	Operating Revenues				
2	Jurisdictional Base Rate Revenue	\$40,319,250 (2)	\$6,188,399	\$34,130,851	Calculation 2
3	Other Gas Revenues	2,081,913 (3)	0	2,081,913	Other Revenue - Input
4	Total Operating Revenues	\$42,401,164	\$6,188,399	\$36,212,765	
5	Operation & Maintenance Expenses	\$16,076,586	\$0	\$16,076,586	Calculation 3A
6	Total Operation & Maintenance Expenses	\$16,076,586	\$0	\$16,076,586	
7	Administrative & General Expenses	\$8,327,164	\$0	\$8,327,164	Calculation 3A
8	Total Administrative & General Expenses	\$8,327,164	\$0	\$8,327,164	
9	Depreciation and Amortization Expense	\$7,807,473	\$1,186,018	\$6,621,455	Calculation 3B
10	Total Depreciation & Amortization Expense	\$7,807,473	\$1,186,018	\$6,621,455	
11	Taxes Other Than Income				
12	Payroll Taxes	(\$38,919)	\$0	(\$38,919)	Calculation 3A
13	Ad Valorem and Other Taxes	1,362,895	224,875	1,138,019	Calculation 3A
14	Total Taxes Other Than Income	\$1,323,976	\$224,875	\$1,099,100	
15	Total Operating Deductions	\$33,535,199	\$1,410,893	\$32,124,306	Line 6 + Line 8 + Line 10 + Line 14
16	Operating Earnings	\$8,865,965	\$4,777,506	\$4,088,459	Line 4 - Line 15
17	Income Taxes				
18	Federal and State Income Tax (1)	\$1,605,067	1,055,886	\$549,181	
19	Total Income Taxes	\$1,605,067	\$1,055,886	\$549,181	
20	Net Jurisdictional Operating Earnings				Line 16 - Line 20
21	Total Rate Base				Calculation 5
22	Rate of Return				Line 20 / Line 21
23	Return on Equity				Line 22 - Calculation 6 Calculation 6

Notes

- (1) **Tax Rate**
Income Tax (Federal and State) Calculated at the Following Rate 27.17%
Federal Tax Rate - 21.00%
State Tax Rate - 7.81%
Combined Rate = 21.00% + 7.81% - (21.00% x 7.81%) = 27.17%
- (2) Actual Revenues based on Approved Customer Charges and Distribution Rates with a weather normalization adjustment.
- (3) Includes an Adjustment to reflect revenue credit for use of regulated assets by non-regulated business (same type of adjustment which was included in NG-0067)

Calculation of Weighted average Federal Income Tax Rate

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Total State

Line No.	Description (A)	Base Year Ending Balance (B)	SSIR (C)	Base Year Excluding SSIR (D)	Reference (E)
1	Per Books Utility Plant in Service	\$320,240,858	\$61,210,743	\$259,030,115	GPlant Account State - WP
2	Construction Work in Progress	4,094,310	0	4,094,310	GPlant Account State - WP
3	Utility Plant in Service	\$324,335,168	\$61,210,743	\$263,124,425	Line 1 + Line 2
4	Less: Accumulated Depreciation, Depletion and Amortization	(\$126,966,233)	\$1,030,782	(\$127,997,015)	RBData - WP
5	Less: Customer Advances	(11,439)	0	(11,439)	RBData - WP
6	Net Utility Plant in Service	\$197,357,496	\$62,241,525	\$135,115,971	Line 3 + Line 4 + Line 5
7	Less: Accumulated Deferred Income Taxes	(\$12,421,322)	(\$4,474,207)	(\$7,947,114)	RBData - WP
8	Less: Customer Deposits	(1,132,077)	0	(1,132,077)	RBData - WP
9	Plus: Total Working Capital	2,848,919	0	2,848,919	RBData - WP
10	Total Rate Base	\$186,653,015	\$57,767,317	\$128,885,697	Line 6 + Line 7 + Line 8 + Line 9
11	Return on Rate Base	[REDACTED]			

Total Jurisdictional

Line No.	Description (A)	Base Year Ending Balance (B)	SSIR (C)	Base Year Excluding SSIR (D)	Reference (E)
12	Per Books Utility Plant in Service	\$252,490,106	\$47,073,108	\$205,416,999	GPlant Account State - WP
13	Construction Work in Progress	3,235,818	0	3,235,818	GPlant Account State - WP
14	Utility Plant in Service	\$255,725,924	\$47,073,108	\$208,652,816	Line 12 + Line 13
15	Less: Accumulated Depreciation, Depletion and Amortization	(\$99,709,814)	\$775,041	(\$100,484,855)	RBData - WP
16	Less: Customer Advances	(9,534)	0	(9,534)	RBData - WP
17	Net Utility Plant in Service	\$156,006,576	\$47,848,149	\$108,158,428	Line 14 + Line 15 + Line 16
18	Less: Accumulated Deferred Income Taxes	(\$9,818,770)	(\$3,435,970)	(\$6,382,800)	RBData - WP
19	Less: Customer Deposits	(1,015,539)	0	(1,015,539)	RBData - WP
20	Plus: Total Working Capital	2,246,196	0	2,246,196	RBData - WP
21	Total Rate Base	\$147,418,462.45	\$44,412,178.55	\$103,006,284	Line 17 + Line 18 + Line 19 + Line 20
22	Return on Rate Base	[REDACTED]			

Black Hills Gas Distribution, LLC - Nebraska Operations
Rate of Return & Cost of Capital
Base Year - 12 Months Ending December 31, 2018

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Line No.	Actual Capital Categories (A)	Average Capitalization (B)	Percent of Total (C)	Cost of Capital (D)	Weighted Cost of Capital (E)	Reference (F)
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Base Year Balances

1	Long Term Debt	[REDACTED]				Capital Structure - Input
2	Equity	[REDACTED]				Capital Structure - Input
3	Total Capital	[REDACTED]			[REDACTED]	