BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Commission, on its own motion, seeking to review policies and practices relating to the administration of customer choice programs for natural gas service offered within the State of Nebraska.	))))))	Application No. NG-102/PI-225 **COMMENTS**

Heartland Natural Gas, LLC ("HNG"), by and through its attorneys of record, Rembolt Ludtke LLP, submits these comments to the Nebraska Public Service Commission ("Commission") in response to the Progression Order No. 2, entered by the Commission on March 10, 2020 ("*Order*"). HNG will address issues 7 and 8 raised by the Commission in its Order.

7. Energy Options

a. How are transportation and capacity related costs currently allocated between customers? Is this allocation method appropriate?

To ensure that all Firm end use customers have adequate pipeline capacity, Black Hills Energy ("BHE") negotiates and contracts both price and quantity for those customers. The Firm end use customers' winter capacity is then released to each customer's selected Marketer for the marketer to use to deliver that end use customer's gas to BHE's system. This method allows for BHE to maintain an ability to act as a back-up supplier should a Marketer encounter any issues with providing natural gas to the system. In such an event, as the original contractor of this capacity being released, BHE has the ability to reassume the rights to the capacity from the pipeline in a way which causes no disruption to the end user's service. This 'release' process provides sufficient supply security for both the end user and BHE.

To fully understand the 'capacity related costs' the analysis has to be divided into two areas of focus: 1) The 'Amount' of capacity released per end user and 2) The 'Rate' per unit being released.

First, we will examine how the "Amount" is currently determined.

Each customer's meter is assigned an estimated Maximum Daily Quantity ("MDQ"). The MDQ is an estimation of the amount of natural gas a particular end use meter may need on the coldest day of the winter. For Firm Energy Options end use customers, the meter technology is not in place to have actual daily reads which leaves 'estimating' as the only option of determining MDQ. Once the MDQ for all end use customer meters in a Marketer's pool is determined, it is then released for the five (5) winter months only (Nov-Mar) for any Northern Natural Gas (NNG) and Natural Gas Pipeline Company of America (NGPL) service area. This 'release' occurs each October for the upcoming winter. Since the beginning of Energy Options, BHE has determined that a winter-only release of 'firm capacity' is sufficient and appropriate and that summer capacity releases on NNG and NGPL are not necessary for Energy Option end use customers.

The methodology for determining the MDQ amount is to take the highest monthly total within the last three years and then divide that number by 20. The factor of '20' is based on the idea that these are commercial customers operating only 20 business days a month (5 days per week). This factor is used even though a vast majority of Firm end use customers operate more than 5 days a week. Once this number is determined, it is then converted into Dekatherms (Dth) by dividing the results by '10'. (i.e., Highest usage/20/10.)

For example: Assume an end use customer's highest usage month is 5,575 therms, then the MDQ is 28Dth (5,575/20/10 = 28Dth). 28Dth is the amount of transportation capacity on the pipeline BHE will release for this end use customer to its chosen Marketer. The amount of 28Dth is then released for the five months of winter even though it is set by the single highest use month. To clarify, this end use customer is paying for the right to use up to 28Dth per day throughout the five winter months. Based upon information and belief this is an amount greater than what was originally purchased by BHE for end use customer of this example.

Heartland has long suggested the middle denominator, which represents the number of operating days per month, in this formula should be '25' and not '20'. '25' would better represent actual scenario where businesses operate on average, across industries, for 6 days a week (Monday through Saturday). Using the denominator of 25, the MDQ in the example would be reduced to 22Dth (5,575/25/10=22Dth). This would reduce the end use customer's released 'Amount' of capacity by 21% to an amount, based upon information and belief, which is closer to the amount actually purchased by BHE on behalf of this example's end use customer. To determine if the current method is fair, sufficient, and appropriate, all that needs to be done is to verify the amount is the same amount originally purchased on this customer's behalf by BHE. If the amount released on the end user's behalf is more or less than the amount originally purchased then a cross-subsidy has occurred between General Sales customer class and Energy Option customer class. Such an analysis has been requested by Heartland in the past but has not been received.

Second, we will now examine the 'Price' of the capacity being released.

When 'releasing' capacity within either NNG's or NGPL's system the releasing party must determine a rate for which the acquiring party will pay. In Heartland's experience and based upon observations since the beginning of Energy Options, BHE has released the capacity at a rate equal to the Maximum Allowable Rate per pipeline per segment. Maximum Allowable Rates are the FERC-approved tariff rates for each pipeline. It is a common understanding in the marketplace that it is highly unlikely a large utility pays the maximum rate for all of its Firm capacity. It is also common knowledge, that 'discounts' are an ordinary practice. Based upon information and belief, BHE receives such discounts on the same Firm capacity type it releases for Energy Option end use customers. If BHE does hold discounted contracts on capacity, then the only way to release the capacity without causing a cross-subsidy is to do so at the average rate and not the Maximum Rate Allowable. To determine if the current release rates are fair, sufficient, and appropriate, all that needs to be done is to verify the actual average rate at which BHE has purchased these end use customers' Firm winter capacity.

In conclusion, since the Capacity released to the Marketers for the Firm end use customers is likely more than needed and the Rates are at the maximum tariff price, Firm Energy Option customers do not receive the value of these agreements which ostensibly have been negotiated on their behalf. In conclusion, the extra expense for the Firm customers effectively results in those customers offsetting pipeline capacity costs for General Sales customers, who retain all the value of the Firm customers' negotiated contracts. The Marketers do not have the ability to negotiate on their customers behalf since it has already been done by Black Hills Energy.

The benefit (in dollars) the current release provides to general sales customers at the expense of Firm Energy Option customers each year, can be seen in the annual GCR. https://psc.nebraska.gov/sites/psc.nebraska.gov/files/doc/BHE%20GCR%2011-1-19%20PA.pdf

b. What are the benefits and detriments of a pro rata allocation of transportation costs?

Heartland recommends the Commission require BHE to allocate its winter transportation capacity costs on a pro rata basis with regard to amount or price. The benefit of a pro rata allocation of the Amount and Rate would reduce the excessive burden and potentially unfair capacity related costs for Energy Options customers while still allowing

BHE to maintain the confidence that all Firm end use customers have adequate pipeline capacity. In contrast from the status quo, all customers would be receiving the benefits and values of the pipeline negotiations done on their behalf by BHE. In effect, it would ensure that one class of customer does not subsidize another class of customer.

8. Further Information.

The actual gas supply costs, including capacity, are submitted each month to the Commission as the Purchase Gas Adjustment. In those submittals, the cover letter states: "....The attached confidential computations are submitted in support of the gas supply cost adjustments affecting volumes delivered to BHE customers on or after..." Heartland suggests the answers to whether or not Energy Options customers are being charged more than the average rate is in the 'attached confidential computations.' Heartland would ask the Commission to consider a limited release of this information to concerned parties in order to verify costs.

Dated: May 29, 2020

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CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing ***Comments*** was served upon the following by electronic mail on May 29, 2020, addressed to:

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