

Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-111.1
Review of May 3, 2022, Annual True-Up of Storm URI, Feb 2021, Recovery Rate

Introduction

On behalf of the Public Advocate, Blue Ridge Consulting Services, Inc. (“Blue Ridge”) reviewed the Annual True-Up of Storm URI, Feb 2021, Recovery Rate dated May 3, 2022, of Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“Black Hills,” BHE, or “Company”), that was filed in Docket No. NG-111.1. This report presents the results of that review.

Background

During the period February 13–17, 2021, a large portion of the United States experienced extreme cold weather. An area extending through the center of the country from the northern border of the United States, through Nebraska, and reaching the southern edge of Texas experienced extreme low temperatures persisting over several days. Failures of the (Texas) electric grid due to weather caused significant decreases in natural gas supply, even as heating needs increased dramatically. The market for natural gas, therefore, became extremely competitive and prices soared. Black Hills reported to the Commission that the spike in natural gas prices was likely to cause a substantial impact upon customer bills in the ensuing months.

On May 25, 2021, the Nebraska Public Service Commission (“Commission”) issued an order approving a mechanism for gas utilities to recover the costs of gas purchased between February 13–18, 2021, from customers:

Black Hills is hereby permitted to implement a cost recovery mechanism to recover the costs of gas purchased between February 13-18, 2021, from customers. This Mechanism will be reflected as a separate line item on customer bills and is to be in place no longer than 36 months. Upon final reconciliation of costs from the February 2021 cold weather event, Black Hills must submit to the Commission a final total of costs to be recovered. The Commission finds that all reasonable measures must be taken to ensure that the Mechanism proposed by Black Hills will not result in any costs being passed on to customers which are not a direct result of the February 2021 cold weather event. In no event should Black Hills recover any costs beyond this final calculated amount, with carrying costs as described below.

The Commission hereby approves the recovery of carrying costs incurred by Black Hills for the 36-month recovery term at a rate of either 6.71% per annum, or at the actual rate of any financing obtained by Black Hills specifically and solely for the purpose of covering gas purchases made between February 13–18, 2021, whichever is lesser.

In its first report discussed below, Black Hills shall disclose the actual rate it is utilizing to calculate the carrying costs. If the WACC rate of 6.71% per annum is utilized, Black Hills must disclose the actual cost of the financing and provide documentation to demonstrate that it would be more than 6.71% per annum.

Should there be any cost savings realized by Black Hills due to the switching of interruptible customers to firm rates, such cost savings must be used to offset the costs of gas purchases made between February 13-18, 2021. Additionally, Black Hills is required to conduct regular customer outreach throughout this 36-month period by use of emails, bill inserts, and other forms of advertisement, regarding the availability of budget billing.

Black Hills is hereby required to file with the Commission semi-annual reports during the recovery period reporting the progress of the recovery of the purchased gas costs.

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These reports shall be due in conjunction with the annual Gas Cost Reconciliation (GCR) filing, due on or before October 1, with an additional report due on or before April 1 of each calendar year. These reports shall continue to be filed until Black Hills files its final reconciliation report at the conclusion of the 36-month recovery period. The reports may be submitted electronically to psc.naturalgas@nebraska.gov, with a copy to the Public Advocate for review.¹

Semi-Annual Report—Recovery Progress (October 1, 2021)

On October 1, 2021, the Company filed its initial Semi-Annual Report—Recovery Progress. On October 15, 2021, the Company filed Supplemental Comments in Support of the Semi-Annual Report. The Supplemental filing addressed questions raised by the Commission and provided exhibits supporting the recovery charge. The Supplemental filing included the following key elements:

- Gas Costs to Recover: \$79,750,000²
- Carrying Costs: actual carrying costs of 3.36%³ (instead of applying the approved Weighted Average Cost of Capital (WACC) from NG-109)
- Total Amount to be Recovered:

Table 1: Gas Costs and Carrying Charges to be Recovered⁴

| Description | Amounts |
|-----------------------|--------------|
| Gas Costs to Recovery | \$79,750,000 |
| Carrying Costs | 4,436,069 |
| Total Recovery | \$84,186,069 |

- Estimated Polar Vortex Recovery Rate: \$0.16555 per term⁵

Semi-Annual Report—Recovery Progress (April 1, 2022)

On April 1, 2022, Black Hills filed the required Semi-Annual Report—Recovery Progress for the Recovery of Purchased Gas Costs. The filing is required pursuant to the Commission’s order, dated May 25, 2011, in Docket No. NG-111/PI-237. Blue Ridge reviewed the April 1, 2022 report to ensure it met the requirements of the Commission’s order and was consistent with its Supplemental Comments in Support of the Semi-Annual Report dated October 15, 2021. Blue Ridge issued its report on April 13, 2022. On April 29, 2022, BHE responded to Blue Ridge’s recommendations. The Company provided the Excel files supporting its report with intact formulas, recommended that the Commission update the tariff on the Commission e-docket to reflect the approved tariff, and modified the Percent Costs Recovered calculation to include Conversion Fee Recovery amounts. The Semi-Annual Report included the following key elements:

- Total Amount to be Recovered and Amount Recovered through February 2022:

¹ Order Approving Recovery Plan (May 25, 2021), pages 3–4.

² Supplemental Comments in Support of Semi-Annual Report (October 15, 2021), Confidential Exhibit 2.

³ Supplemental Comments in Support of Semi-Annual Report (October 15, 2021), page 8 and Confidential Exhibit 1.

⁴ Supplemental Comments in Support of Semi-Annual Report (October 15, 2021), Confidential Exhibit 2.

⁵ Supplemental Comments in Support of Semi-Annual Report (October 15, 2021), page 9.

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Table 2: Amount to be Recovered and Amount Recovered through February 2022⁶

| Description | Amounts |
|--|---------------------|
| Gas Costs to Recovery | \$79,750,000 |
| Carrying Costs | 4,436,069 |
| Total Amount to be Recovered | \$84,186,069 |
| Total Recoveries through February 2022 | (17,578,140) |
| Remaining Balance | \$66,607,928 |

Slight differences due to rounding

- Volumetric Recovery Rate per Therm
 - Jul 2021–Dec 2021—0.17322 per therm
 - Dec 2021–Feb 2022—0.16586 per therm
- Recovery start date—July 1, 2021
- Recovery end date —June 30, 2024

Findings, Conclusions, and Recommendations

Annual True-Up Rate Recovery (May 3, 2022)

Blue Ridge reviewed the Company’s May 3, 2022, Annual True-Up of Storm Uri, Feb 2021, Recovery Rate filing to determine whether it provided what was required in the Commission’s order dated May 25, 2021, and whether it was consistent with the Supplemental Comments in Support of the Semi-Annual Report dated October 15, 2021.

Finding #1 and Conclusion: The Company’s filing implied that the Annual True-Up was pursuant to the Commission’s order entered May 25, 2021, in docket NG-111/PI-237. However, Blue Ridge found that, while the May 25, 2021, order requires Black Hills to file with the Commission semi-annual reports during the recovery period reporting the progress of the recovery of the purchased gas costs, no requirement or provision exists requiring an annual true-up for under or overrecovery that results in a modification of the per-therm rate.

Conclusion: The Company’s filing and annual true-up of the recovery rate requiring a modification of the per-term rate are not a requirement of the Commission.

Finding #2: The Company’s filing provides the amount to be recovered of \$84,186,069, which is consistent with prior filings. The report also provides the estimated recoveries through June 30, 2022, of \$26,965,012.

Table 3: Amount to be Recovered and Estimated Amount Recovered through June 30, 2022⁷

| Description | Amounts |
|--|---------------------|
| Gas Costs to Recovery | \$79,750,000 |
| Carrying Costs | 4,436,069 |
| Total Amount to be Recovered | \$84,186,069 |
| Estimated Recoveries through June 2022 | (26,965,012) |
| Estimated Remaining Balance 6/30/22 | \$57,221,057 |

Slight differences due to rounding

⁶ Response to Public Advocates Comments on Semi-Annual Report Recovery Progress (April 29, 2022), Confidential Attachment.

⁷Annual True-Up of Storm Uri, Feb 2021, Recovery Rate (May 3, 2022) Attachment.

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Blue Ridge reviewed the information provided in the Company's October 15, 2021, filing, Confidential Exhibit 2. The Exhibit reports revenue requirements (recovery) of \$84,186,069 with a forecasted recovery through June 30, 2022, of \$27,927,076.⁸ The forecasted recovery in the October report is different from what is forecasted in the May 3, 2022, filing. The May filing reports a forecasted recovery through June 30, 2022, of \$26,965,012. The difference between the two forecasts is \$962,064.

Table 4: Comparison of 10/15/21 and 5/3/22 Reported Forecasted Recoveries through 6/30/22

| Description | Forecasted Recovery through 6/30/22 |
|---|-------------------------------------|
| Supplemental Comments in Support of Semi-Annual Report (October 15, 2021), Confidential Exhibit 2 | \$27,927,076 |
| Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022) | 26,965,012 |
| Difference | \$962,064 |

Conclusion: The Company's filing does not provide an analysis or explanation for why the estimated recoveries through June 30, 2022, are different from what was anticipated in the October 15, 2021, filing (six months earlier).

Recommendation: The Company should provide a reconciliation of the forecasted recoveries provided in the October 2021 to what is forecasted in this filing.

Finding #3: The Company cover letter states that an estimated shortfall exists in the first 12 months of the 36-month recovery period of approximately \$1.1 million. As shown in the previous table, it appears that the shortfall should be \$962,064.

Conclusion: Blue Ridge found that the Company's filing does not provide an analysis of the approximately \$1.1 million shortfall nor an explanation for why a shortfall exists.

Recommendation: Blue Ridge recommends that the Company provide an analysis showing how the Company determined it would have an \$1.1MM estimated shortfall.

The Company should also explain the major causes for the estimated shortfall.

Finding #4: The Commission order approving the Company's recovery plan states, "Should there be any cost savings realized by Black Hills due to the switching of interruptible customers to firm rates, such cost savings must be used to offset the costs of gas purchases made between February 13-18, 2021." In addition, the Order states, "In no event should Black Hills recover any costs beyond this final calculated amount, with carrying costs as described below."⁹ The Company's April 1, 2022, Semi-Annual Report on Recovery Progress reports four conversions from July 1, 2021, through February 28, 2022, resulting in \$52,000 in Conversion Fee Recoveries.¹⁰ The Company's May 3, 2022, filing does not indicate whether these conversions have been reflected in the total recoveries.

Conclusion: Blue Ridge found that the Company's filing does not indicate whether the conversions have been reflected in the total recoveries.

⁸ Supplemental Comments in Support of Semi-Annual Report (October 15, 2021), Confidential Exhibit 2, row 48 Total Revenue Requirements Jul-21 through Jun-22.

⁹ Order Approving Recovery Plan (May 25, 2021), page 3.

¹⁰ Semi-Annual Report Recovery Progress (April 1, 2022), Confidential Attachment.

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Recommendation: Blue Ridge recommends that the Company add the Conversions to its Annual True-Up analysis and to confirm that all Conversion Fee Recovery amounts are reflected in the Total Recoveries before any shortfall is recovered.

Finding #5: The Company proposes to increase the recovery rate by \$.00240 per therm from \$.16586 per therm to \$.16826 per therm to recover an estimated shortfall in the first 12 months of the 36-month recovery period of approximately \$1.1 million. The Company stated that the increase would result in an annual increase in the average customer's bill of less than \$2.00. The Company proposes the increase become effective July 1, 2022.

Conclusion: While the Commission's order does not provide for an annual true-up and change of the recovery rate, some merit may exist in modifying the rate going forward to avoid a larger true-up at the end of the three years of allowed recovery.

Recommendation: Assuming that the Company fully supports the amount and reasons for the estimated shortfall, Blue Ridge recommends that the modified rate be approved. If there is an over recovery in the future, an adjustment should be made to ensure the recovery amounts are not over collected.