

Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-111.1
Review of April 1, 2022, Semi-Annual Report on Recovery Progress
for the February 2021 Cold Weather Event Cost

Introduction

Blue Ridge Consulting Services, Inc. (“Blue Ridge”) reviewed the Semi-Annual Report—Recovery Progress for the Recovery of Purchased Gas Costs dated April 1, 2022, of Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“Black Hills” or “Company”), that was filed in Docket No. NG-111.1. The filing is required pursuant to the Nebraska Public Service Commission (“Commission”) order, dated May 25, 2011, in Docket No. NG-111/PI-237. By its review, Blue Ridge intended to determine whether the Company’s April 1, 2022, Semi-Annual filing 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.

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 Commission issued an order approving a mechanism 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

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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. 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

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 four 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	Capital Structure
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

Analysis, Conclusions, and Recommendations

Blue Ridge reviewed the Company’s April 1, 2022, Semi-Annual filing in comparison to what was required in the Commission’s order dated May 25, 2021, and what was provided in the Supplemental Comments in Support of the Semi-Annual Report dated October 15, 2021.

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

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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Analysis and Conclusion: The Company's initial Semi-Annual Report was filed on October 1, 2021. On October 15, 2021, the Company filed Supplemental Comments in Support of its Semi-Annual Report. The filing under review in this report, dated April 1, 2022, fulfills the April 1 filing requirement. The April 1, 2022, cover letter stated that the report is current as of February 28, 2022.

Requirement: The reports may be submitted electronically to psc.naturalgas@nebraska.gov, with a copy to the Public Advocate for review.

Analysis and Conclusion: The Company filed confidential and public versions of its Semi-Annual Report in a PDF format.

Recommendation: The filing should include an Excel file of the attachment "Recovery of Storm Uri, February 2021, Purchased Gas Costs Progress" with all formulas intact.

Requirement: 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.

Analysis and Conclusion: On April 30, 2021, the Company submitted the final total gas costs of \$79,750,000 with carryings costs of \$4,436,069 (together, \$84,186,069). These amounts are consistent with the recovery amounts reflected in the October 15, 2021, Supplement.

Requirement: This Mechanism will be reflected as a separate line item on customer bills and is to be in place no longer than 36 months.

The October 15, 2021, Supplement estimated the Polar Vortex Recovery Rate of \$0.16555 per term.⁶ The April 1, 2022, filing under review reflects a Volumetric Recovery Rate of \$0.16586 per term and refers to BHNE Natural Gas Tariff, Sheet No. 136. However, Blue Ridge could not find the Volumetric Recovery Rate in the Tariff on the Commission e-docket. Sheet No. 136 is related to the Supplier Fee applicable to Choice Program Suppliers in Rate Area 5.

Recommendation: Either the Tariff on the Commission's e-docket should be updated to reflect the approved tariff, or the Company should modify its reference in its filing.

Requirement: 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.

Analysis and Conclusion: The Company reports four conversions from July 1, 2021, through February 28, 2022, resulting in \$52,000 in Conversion Fee Recoveries.

Requirement: This Mechanism ... is to be in place no longer than 36 months.

Analysis and Conclusion: The filing reports 22.22% of the recovery period has occurred (Seven months from July 1, 2021, through February 28, 2022). However, the Company reports that it has recovered 20.82% of the costs. Blue Ridge found that the Company's 20.82% of recovered costs does not include the \$52,000 of Conversion Fees Recovered.

⁶ Supplemental Comments in Support of Semi-Annual Report (October 15, 2021), page 9.

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Table 2: Amount Recovered

Description	Amount Per Company	Adjusted
Total Gas Costs and Carrying Costs	\$84,186,069	\$84,186,069
Volumetric Recovery	17,526,140	17,526,140
Conversion Fee Recovery		52,000
Total Recovery		\$17,578,140
Percent Costs Recovered	20.82%	20.88%

Recommendation: The Company should include Conversion Fee Recovery amounts in its Percent Costs Recovered calculation.

Requirement: In no event should Black Hills recover any costs beyond this final calculated amount, with carrying costs as described below.

Analysis and Conclusion: The final amount recovered is unknown until the 36-month recovery period ends. The Company's filing reports a remaining balance of \$66,607,928 as of February 28, 2022. This amount includes the Conversion Fee Recovery amount of \$52,000.

Requirement: These reports shall continue to be filed until Black Hills files its final reconciliation report at the conclusion of the 36-month recovery period.

Analysis and Conclusion: The Commission's May 25, 2021, order stated that the recovery would begin on July 1, 2021. The 36-month recovery period would end on June 30, 2024.

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