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By Deena Ackerman at 8:08 am, May 03, 2021

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April 30, 2021

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

Re: Docket No. NG-111.1/PI-237
Commission Investigatory Docket
February 2021 Cold Weather Event

Dear Mr. Hybl;

Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy hereby submits the attached Written Proposal To Mitigate Customer Impact and Application For Recovery of Extraordinary 2021 Gas Supply Costs as set forth in the Nebraska Public Service Commission's March 2, 2021 and April 13, 2021 Orders in Commission Docket No. NG-111.1.

Please contact me at (402) 221-2635 or douglas.law@blackhillscorp.com if you have any questions, concerns, or need additional information.

Respectfully submitted,

/s/ Douglas J. Law

Douglas J. Law #19436
Associate General Counsel

cc: Nichole Mulcahy – Director on Natural Gas, NPSC
Sallie Dietrich – Legal Counsel, Natural Gas Department, NPSC
William Austin – Public Advocate of Nebraska

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE)
COMMISSION, ON ITS OWN MOTION)
SEEKING TO INVESTIGATE THE)
EFFECT OF THE FEBRUARY 2021)
COLD WEATHER EVENT UPON THE)
COST OF GAS SUPPLY PURCHASED)
BY NEBRASKA GAS UTILITIES)

Application No. NG-111/PI-237

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BLACK HILLS NEBRASKA GAS, LLC)
D/B/A BLACK HILLS ENERGY)

DOCKET NO. NG-111.1

**BLACK HILLS NEBRASKA GAS, LLC D/B/A BLACK HILLS ENERGY'S
WRITTEN PROPOSAL TO MITIGATE CUSTOMER IMPACT AND
APPLICATION FOR RECOVERY OF EXTRAORDINARY 2021 GAS SUPPLY COSTS**

I. INTRODUCTION

On March 2, 2021, The Nebraska Public Service Commission (“Commission”), on its own motion, opened this proceeding for the purpose of gathering information and formulating a response to the effect of the February 2021 cold weather event (“2021 Weather Event Reporting Order”). The Commission’s 2021 Weather Event Reporting Order seeks information regarding the cost of gas supply purchased by Nebraska gas utilities subject to the Commission’s jurisdiction under the State Natural Gas Regulation Act, Neb. Rev. Stat. §§ 66-1801 through 66-1868 (“Act”).

This proceeding was opened in order to facilitate open communication with Black Hills Nebraska Gas, LLC, d/b/a Black Hills Energy (“Black Hills Energy” or “Company”) and Northwestern Energy (“NorthWestern”) (collectively “the utilities”), working in connection with the Commission to understand the effects of this cold weather event and consider options to mitigate its impact upon customer bills. The Commission established a sub-docket in Docket No. NG-111.1 to address the weather event issues related to Black Hills Energy.

On March 2, 2021, the Commission also found that certain provisions of the tariff of Black Hills Energy should be temporarily modified to exclude these extraordinary natural gas procurement costs (“February 2021 Cold Weather Event Costs”). The Commission ordered Black Hills Energy to track its incremental and extraordinary natural gas supply and interstate transmission penalty and imbalance costs related to the February 2021 cold weather event separately from gas costs recovered through Black Hills Energy’s monthly Gas Cost Adjustment (“GCA”) mechanism.

The Commission noted that the current GCA mechanism should continue as usual except for the February 2021 Cold Weather Event Costs directly related to market purchase during the cold weather event. However, the February 2021 Cold Weather Event Costs shall remain in suspense until further order of the Commission.

The Commission further extended the provisions and protections of the Residential Winter Disconnection, 291 Neb. Admin. Code § 9-013.05 through May 31, 2021.

The Commission’s 2021 Weather Event Reporting Order also scheduled a Workshop for April 6, 2021, at which Black Hills Energy was required to present information to the Commission regarding the status of customer bills due to the February cold weather event.

The Commission’s 2021 Weather Event Reporting Order required Black Hills Energy to file a written proposal to mitigate the impact on customer bills from the February 2021 Cold Weather Event Cost on or before April 13, 2021. On April 13, 2021, the Commission granted an extension of time for Black Hills Energy to file its written proposal for mitigation of the February 2021 Cold Weather Event Cost.

This written proposal to mitigate the customer impact of the February 2021 cold weather event costs and application for Commission approval of a mechanism for Black Hills Energy to recover

the extraordinary gas supply costs incurred during February 2021 is hereby filed pursuant the Commission's 2021 Weather Event Reporting Order.

II. WORKSHOP

As noted above, the Commission's 2021 Weather Event Reporting Order scheduled a Workshop for April 6, 2021, In compliance with the Commission's order, on March 31, 2021, Black Hills Energy submitted its responses to questions provided within the Commission's 2021 Weather Event Reporting Order. Black Hills Energy participated in the Commission Workshop on April 6, 2021.

During the Workshop additional questions arose that required Black Hills Energy to submit additional information regarding the February cold weather event. Specifically, the Commission had four follow-up items to be addressed subsequent to the Workshop, which are addressed herein. The Commission requested that Black Hills Energy file responses to the Workshop questions as part of its formal proposal for recovery of the costs by April 13, 2021. The additional requests for information are as follows:

- 1. What information does Black Hills Energy have regarding anticipated carrying costs for the various recovery periods considered? Why was a 3-year recovery period chosen over a 5-year recovery period?**

Response:

See the discussion below in section E.

In addition, funding for the February 2021 Cold Weather Event Gas Costs will depend on many factors including recovery time and requirements of funding for other Black Hills Corporation ("BHC") utilities as well. If the costs were recovered within a year, BHC would plan to use short-term debt, paying down the short-term debt incurred quickly as costs are recovered. For longer-term recovery periods, BHC will have to rely on longer-term financing options like long-term debt and equity and manage risk and credit rating requirements.

BHC issues long-term debt and equity to fund its' utilities at the parent level to ensure the most efficient source of funding for all of its' business units. If, BHC is expected to issue

debt separately for each of its' utilities' recovery costs, the cost of debt rises significantly. Furthermore, BHC must balance the issuance of long-term debt with needs to issue equity to maintain its' credit ratings.

BHC is rated on credit by Fitch, S&P and Moody's. BHC management has had extensive conversations with each agency to explain the Company's response and impact on financials as well as understand the agencies' concerns. Conversations and questions from each agency have been focused on our utilities' ability to recover the costs in full, timeliness to start recovery, and speed of recovery to bring credit metrics back to pre-storm levels.

Credit rating agencies have concerns about using short-term debt to finance these costs when recovery is longer than 12 months. Refinancing risk, interest rate risk, and ability to weather any future increase creates business and financial risk for BHC and puts pressure on credit ratings.

Black Hills Energy proposed carry costs is to use both long-term debt and equity. To recover these extraordinary gas supply costs over a longer time frame, using only long-term debt will put pressure on credit ratings and capital structure. The Company will need to include equity to help finance these costs, reduce impact on capital structure and balance out impact on credit ratings.

As set forth below, and explained during the Workshop, a three-year period was selected since that period balances customer impact against the longer period of carry costs. This period keeps monthly average bills for residential customers to less than \$10 per month.

2. Does Black Hills Energy anticipate any recovery from long hedging positions?

Response: No. While Black Hills Energy does include financial derivatives as a part of its natural gas supply portfolio plan, there is no significant recovery anticipated to apply against the February 2021 cold weather gas supply pricing.

3. Please provide information on the actual gas usage and costs incurred for February 12, 2021 and February 18, 2021. Why should those dates be included in the recovery period?

Response: Using a period of February 13-17 for the recovery mechanism, rather than February 12-18, shifts approximately \$2.3 million dollars from the 3-year deferred recovery to the 12-month GCA recovery.

4. Please provide information regarding the actual usage in therms for Nebraska for February of 2021 versus the usage in February of prior years.

Response: The customer impacts presented by Black Hills Energy are based on weather normalized usage. The table below shows the average actual usage, represented as Usage Per Customer ("UPC") in therms, compared to weather normalized usage for February and

March. Usage is cycle billed rather than calendar billed. February actual usage is the usage that was billed in February, which is a combination of January and February usage. Likewise, March is a combination of February and March usage.

	Normalized Usage	2021 Actuals	2020 Actuals
Residential Avg UPC			
February	131	133	122
March	<u>100</u>	<u>105</u>	<u>91</u>
	231	238	213
Commercial Avg UPC			
February	497	532	468
March	<u>371</u>	<u>395</u>	<u>340</u>
	868	927	808

III. RECOVERY PLAN

A. RECOVERY MECHANISM

As noted above, the Commission’s 2021 Weather Event Reporting Order established a requirement for Black Hills Energy to submit a formal proposal to recover the extraordinary gas supply costs and to collect those costs. Black Hills Energy hereby proposes to recovery the February 2021 Cold Weather Event Costs through a separate Cold Weather Gas Cost Recovery Mechanism to be reviewed and approved by the Commission. In compliance with the 2021 Weather Event Reporting Order, Black Hills Energy has tracked the extraordinary gas supply costs related to the February 2021 Cold Weather Event Costs separately from its normally-incurred GCA gas costs flowing through the established Commission-approved GCA mechanism.

B. TOTAL APPROXIMATE COSTS

Black Hills Energy proposes to recover approximately \$86.5 million of incremental and extraordinary natural gas commodity costs (i.e., February 2021 Cold Weather Event Costs) and associated carrying costs through a Commission-approved cold weather event recovery

mechanism (i.e., Cold Weather Gas Cost Recovery Mechanism).¹ To be clear, Black Hills Energy fully understands and appreciates that the approximately \$86.5 million of incremental cost of natural gas during the February 2021 cold weather event is unique and extreme when compared to natural gas prices normally experienced during the winter. Black Hills Energy was required to spend as much for gas supplies during the seven-day February 2021 period as it normally spends on gas costs over an entire year. Black Hills Energy is not including any interstate pipeline penalties or charges or interstate pipeline imbalance cash outs within the accounting for the Cold Weather Gas Cost Recovery Mechanism.

- To determine the deferred amount, the Black Hills Energy isolated the extraordinary gas supply purchases from February 12 through February 18, 2021. Black Hills Energy is not proposing to defer the cost of any other normal gas supply commodity or interstate natural gas pipeline costs from February 2021. Once the February 12-18 gas supply commodity purchases were isolated, Black Hills Energy calculated a “normal” February weighted average cost of gas (“WACOG”) from the remaining supply purchases. That WACOG was then used to value a “normal” cost for the February 12-18 gas purchases. The Company is proposing to defer the costs above the “normal” WACOG. Supply purchases delivered by Northern Natural Gas Company (“Northern”) and Natural Gas Pipeline of America (“NGPL”) are allocated to Iowa, Nebraska, and Kansas jurisdictions. There was no change to the usual allocation process for February 2021. Exhibit 1 summarizes the extraordinary purchase costs.

¹ The \$86.5 million consists of approximately \$79.75 million in gas supply costs plus approximately \$6.75 million in anticipated carrying costs.

The amount of the Cold Weather Gas Cost Recovery Mechanism is based upon the information and invoices Black Hills Energy has incurred as of the date of this filing. This amount could be adjusted over the next ninety (90) days to reflect invoices and charges not presently known.

To the extent that any needed adjustments are minimal and not material to the overall amount of the Cold Weather Gas Cost Recovery Mechanism, Black Hills Energy is requesting it have the option of passing them through its existing GCA mechanism rather than collecting them in the Cold Weather Gas Cost Recovery Mechanism. If not minimal, Black Hills Energy will assign the costs to customers in the same manner as the Cold Weather Gas Cost Recovery Mechanism is assigned.

If any government assistance, credits, or refunds related to the February 2021 Cold Weather Event are received by Black Hills Energy in the future, that amount will be assigned to customers in the same manner as the Cold Weather Gas Cost Recovery Mechanism or credited through the GCA. Black Hills Energy will continue to explore outside assistance for its customers, and will coordinate its efforts with the Commission as reasonable and appropriate.

C. RECOVERY PERIOD

Black Hills Energy is seeking recovery of the February 2021 Cold Weather Event Costs over a thirty-six (36) month period. Black Hills Energy proposes a cost recovery period length of thirty-six (36) months because it appears long enough to mitigate the monthly bill impacts on Black Hills Energy's Nebraska customers, but not so long that the incremental gas cost would be a financial hardship on the Company or incur unnecessary carrying costs that Nebraska customers ultimately have to pay. The bill impacts on average customer bills are set forth and explained in further detail below. Black Hills Energy proposes that the thirty-six (36) month recovery time period for the

Cold Weather Gas Cost Recovery Mechanism commence no later than sixty (60) days after Commission approval of the Cold Weather Gas Cost Recovery Mechanism.

The carrying costs for the costs to be recovered through the Cold Weather Gas Cost Recovery Mechanism are proposed to commence beginning in February of 2021 and will conclude with the full recovery of the costs approved for recovery under Black Hills Energy's Cold Weather Gas Cost Recovery Mechanism.

D. CUSTOMER IMPACTS

Black Hills Energy proposes to implement a Cold Weather Gas Cost Recovery Mechanism of \$0.17332 per therm within sixty (60) days after approval of this Application based on a thirty-six (36) month recovery period and total costs of approximately \$86.5 million. In addition to the extraordinary gas costs, this includes carrying costs associated with the unrecovered February 2021 Cold Weather Gas Costs that Black Hills Energy is proposing to recover.

During the three-year recovery period, an average residential customer will see a monthly increase of less than \$10 and an annual increase of approximately \$120 (18%). An average commercial customer will see a monthly increase of approximately \$38 and an annual increase of approximately \$457 (23%).

Black Hills Energy is proposing a volumetric recovery which means that the impact to bills will be a little higher in the winter months (when usage is higher) and lower in the summer months (when usage is low). The table below shows the average monthly and annual increases for the three-year recovery period as well as an average winter and summer bill.

	Avg Residential		Avg Commercial	
	Increase	% Incr	Increase	% Incr
Monthly Bill	\$10	18%	\$38	23%
Annual Bill	\$120	18%	\$457	23%
Winter Month Bill	\$17.85	22%	\$68.63	27%
Summer Month Bill	\$4.33	12%	\$16.29	17%

E. CARRYING COSTS

BHC announced, on February 24, 2021, the closing of an \$800 million unsecured term loan maturing in nine-months on November 24, 2021 with an interest rate of LIBOR plus 75 basis points. The proceeds of this term loan will be used to initially fund the natural gas supply purchases made in February 2021 (by BHC’s various subsidiaries) and provide additional liquidity. BHC expects to repay a portion of this loan prior to maturity and refinance a portion with long-term debt and equity. BHC determined that it was important to quickly lock in low-cost financing in the short-term to manage liquidity before options potentially became more expensive or were altogether unavailable. The term loan allows BHC to pay down a portion or all of the loan with no prepayment penalty prior to maturity and provides important flexibility to determine the best options for BHC’s subsidiaries before locking in more permanent solutions.

Because Black Hills Energy is proposing to recover the costs associated with the February 2021 Cold Weather Event over a three-year period, Black Hills Energy will have to rely on longer-term financing options like long-term debt and equity following repayment of the short-term loan. Black Hills Energy is proposing a blended carrying cost for recovery. Black Hills Energy is requesting a carrying cost of 0.920% to reflect the cost of the initial short-term loan described above to cover February 2021 through September 2021.

Starting in October 2021, after the short term debt is repaid, Black Hills Energy proposes a per annum rate of 6.71%, which is Black Hills Energy’s weighted average cost of capital

(“WACC”) based on its current capital structure, weighted average cost of long-term debt, and an authorized return on equity at a rate equal to the rate approved in Black Hills Energy’s most recent natural gas general rate case in Nebraska.²

Exhibit 2 summarizes the 2021 Polar Vortex carrying costs and shows the calculation of the preliminary recovery amount.³ The actual carrying costs will vary based on the pricing of the long-term debt placed by BHC, the time period needed for the Commission to consider and approve the Cold Weather Gas Cost Recovery Mechanism, and any other timing changes from the periods and amounts shown on Exhibit 2.

The carrying costs are appropriate to facilitate Black Hills Energy’s extended recovery of costs, which is necessary to mitigate customer bill impacts. The Company’s proposed WACC appropriately reflects costs incurred to provide recovery of natural gas costs over a longer period of time than would otherwise occur because its WACC reflects the nature of financing utilized by Black Hills Energy for general corporate purposes. In other words, Black Hills Energy is not earning any return on the application of carrying costs as the recovery is simply keeping BHC whole for the cost to extend the GCA recovery period.

F. COLD WEATHER GAS COST RECOVERY MECHANISM

Black Hills Energy proposes to recover the February 2021 Cold Weather Costs from Black Hills Energy’s customers through the Cold Weather Gas Cost Recovery Mechanism based on per therm usage. In other words, the customers who use more gas supply during the proposed thirty-

² Black Hills Energy completed a general rate review in 2020 with a Return on Equity of 9.5%, with a WACC at 6.71% pursuant to the Order Approving Stipulation and Settlement Agreement entered in Application No. NG-109 on January 26, 2021.

³ This exhibit is illustrative and will need to be updated to capture the actual carrying costs from the time incurred through the entire recovery period determined by the Commission.

six (36) month period will pay more of the cost of recovery for the February 2021 Cold Weather Gas Costs.

Black Hills Energy has considered various recovery allocations and concluded that the most efficient method of recovery is to assess the Cold Weather Gas Cost Recovery Mechanism of the February 2021 Cold Weather Gas Costs to active firm GCA customers. The Cold Weather Gas Cost Recovery Mechanism will apply to all Black Hills Energy Rate Area One, Two and Three firm GCA customers. As this charge is volumetric, Customers who conserve gas in the future will pay less than customers who consume more natural gas. Black Hills Energy anticipates that the majority of gas supply customers will pay a share of the cold weather costs in proportion to their historic usage.

Transportation and interruptible customers will not be assessed the Cold Weather Gas Cost Recovery Mechanism. In addition, customers who terminate gas service will not be assessed the Cold Weather Gas Cost Recovery Mechanism as an exit fee. However, if any prior customer returns or reactivates a gas supply GCA or APO account, then that customer would be assessed the Cold Weather Gas Cost Recovery Mechanism on its ongoing service.

Black Hills Energy investigated into whether its customer information systems could track migration of customers or exclude new customers but determined that such options are not economically feasible or administratively efficient. Thus, all existing and new GCA residential and commercial customers in Rate Areas One, Two, and Three will be subject to this Cold Weather Gas Cost Recovery Mechanism.

This proposal is similar to the Gas Supply Cost Adjustment (“GSCA”) charge applied to Choice Gas Program customers in Rate Area Five in Commission Application No. NG-0088 for

the settlement of the gas supply costs incurred for that rate area. The GSCA applies to all customers whether new or old and is not assessed after a customer terminates Black Hills Energy gas services.

In addition, Annual Price Option (“APO”) customers enrolled in the 2020-2021 APO Program will not be assess the Cold Weather Gas Cost Recovery Mechanism. Those customers were promised a fixed rate for that period of time and assessing them costs for this year’s program would be inappropriate. However, going forward Black Hills Energy intends to assess the Cold Weather Gas Cost Recovery Mechanism in future APO offerings. Assessing all Rate Areas One, Two and Three natural gas supply firm sales customers equally will avoid any potential issues with customers who may wish to migrate to or from the APO program.

As noted above, Black Hills Energy proposes to start charging the Cold Weather Gas Cost Recovery Mechanism within sixty (60) days after Commission approval.

G. FINAL RECONCILIATION AFTER THREE YEAR RECOVERY PERIOD

Black Hills Energy recognizes that there may be an over or under recovery of the February 2021 Cold Weather Gas Costs after the three-year recovery period since the recovery of those costs will be made through a volumetric mechanism. Black Hills Energy proposes to include any over or under recovery of the February 2021 Cold Weather Gas Costs through the GCA as part of the final reconciliation and termination of the Cold Weather Gas Cost Recovery Mechanism in 2024. Black Hills Energy states that it will file an annual true-up and status report of the February 2021 Cold Weather Gas Costs recovery on or near May 1 each year using actual information ending March 31.

IV. EXPEDITED APPROVAL REQUEST

Black Hills Energy respectfully requests that the Commission expedite its review and approval of this written proposal to mitigate the cost of the February 2021 Cold Weather Gas Costs. BHC will need regulatory certainty to enter into long-term debt issuances for the period of recovery approved by the Commission. Thus, the sooner that the Commission can reasonably review and approve the Cold Weather Gas Cost Recovery Mechanism, then the more certainty and flexibility Black Hills Energy and BHC will have to secure reasonably priced long-term debt, allocate equity or take other reasonable and prudent actions.

V. CONCLUSION

Wherefore, in consideration of the responses provided above, Black Hills Energy respectfully requests that the Commission approve Black Hills Energy proposed Cold Weather Gas Cost Recovery Mechanism as supported herein. The Cold Weather Gas Cost Recovery Mechanism is designed to mitigate the impact to customers related to Black Hills Energy's recovery of the extraordinary February 2021 Cold Weather Event Costs discussed herein and in the Commission's April 6, 2021, Workshop. Black Hills Energy requests the Commission's consideration of this request on an expedited basis.

Respectfully submitted this 30th day of April 2021.

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Exhibit 1**2021 Polar Vortex Extraordinary Purchase Costs**

February Supply Purchases	Dth	Actual	Established PGA Process	Extraordinary Deferred Amt
Northern	1,618,258	\$ 71,530,792	\$ 5,574,912	65,955,881
NGPL	369,567	\$ 11,188,790	\$ 1,055,184	10,133,606
TallGrass	209,993	\$ 4,206,068	\$ 548,287	3,657,781
	<u>2,197,818</u>	<u>\$ 86,925,650</u>	<u>\$ 7,178,383</u>	<u>\$ 79,747,268</u>
Round Deferred Amt			\$ (2,732)	\$ 2,732
Total			<u>\$ 7,175,650</u>	<u>\$ 79,750,000</u>

Through the usual accounting process each month, supply purchases are pooled by pipeline and then allocated to Nebraska, Iowa, and Kansas jurisdictions. To determine the Extraordinary Deferred Amount, supply purchases from February 12-18 were isolated. Then a "normal" weighted average cost of gas ("WACOG") was calculated from the remaining February purchases. The normal WACOG was used to determine the costs to be included in the established PGA process, and the difference between the actual costs and those included in the established PGA process is the Extraordinary Deferred Amount.

2021 Polar Vortex Carrying Costs

Total Commodity Costs	\$79,750,000	
*Short Term		
Avg Short-Term Interest Rate	0.92%	
Months at Short-Term Debt	8	Feb 24, 2021 - Sep 30, 2021
Short Term Carrying Costs	\$414,901	
Long Term		
Requested Wtd Avg Cost of Debt	3.91%	
Requested Equity to Cap	0.50	
Requested ROE	9.50%	
Requested WACC	6.705%	
Months at WACC	31	October 2021 - April 2024
Long-Term Carrying Costs	\$6,337,228	
Total ST & LT Carrying Costs	\$6,752,129	
Total Commodity Plus Carrying Costs	\$86,502,129	
Annual Firm Sales Vols	166,363,917	
Recovery Period	3	
Annual Recovery	\$28,834,043	
Recovery Rate \$/Therm	0.17332	

**Short term carrying costs include interest incurred starting in February 2021 based on a forecasted interest rate.*