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June 10, 2022

Col. Thomas Golden (Ret.)
Executive Director
Nebraska Public Service Commission
1200 N Street, Suite 300
Lincoln, NE 68508

**Re: Black Hills Nebraska Gas LLC d/b/a Black Hills Energy
Docket No. NG-111.1 – Annual True-Up of Storm URI, Feb 2021, Recovery Rate**

Dear Mr. Golden:

On May 3, 2022, pursuant to the Order Approving Recovery Plan entered May 25, 2021, (“Cold Weather Event Order”) in Commission Application No. NG-111.1, Black Hills Energy (“Company”) submitted its Annual True-Up of Storm URI, Feb 2021, Recovery Rate to the Nebraska Public Service Commission (“Commission”).

On May 25, 2022, the Nebraska Public Advocate (“Public Advocate”) submitted the Public Advocate’s Review of May 3, 2022, Annual True-Up of Storm URI, Feb 2021, Recovery Rate (“Report”) and notice thereof. The Report included various conclusions and recommendations.

Black Hills Energy provides the following response to the Report and addresses the recommendations and concerns raised in the Report. The following responses of Black Hills Energy are provided in a manner consistent with the order of appearance in the Report.

- ❖ **Report Finding #1:** 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.
 - **Black Hills Energy’s Response:** Black Hills Energy respectfully disagrees with Report Finding #1.

On April 30, 2021, Black Hills Nebraska Gas, LLC submitted its Written Proposal to Mitigate Customer Impact and Application for Recovery of Extraordinary 2021 Gas Supply Costs (“Proposal”) to the Commission. The Proposal includes “Black Hills Energy states that it will file an annual true-up...on or near May 1....”¹

On May 25, 2021, the Commission entered its Order approving the Proposal, as

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, Application No. NG-111/PI-237, Docket No. NG-111.1, April 30, 2021, page 12.

modified for carrying costs and cost savings.²

The Commission approved the Company's Proposal. The Company's Proposal included an annual true-up filing. Therefore, the Company believes an annual true-up of the recovery rate requiring a modification of the per-therm rate is a requirement of the Commission.

- ❖ **Report Finding #2:** 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).

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

- **Black Hills Energy's Response:** October 2021 recovery amounts are estimates based on the amount to recover, a function of extraordinary gas supply costs, estimated short- and long-term carrying costs, and an assumed volumetric recovery distribution.

May 2022 recovery amounts are actual recoveries June 2021 through March 2022, the recovery rate applied to actual volumetric usage, plus Conversion Fee recoveries, plus estimated April through June 2022, recoveries, based on usage forecasts and the recovery rate.

As the two datasets include estimates and are based on different underlying factors, variances occur. The drivers are listed here.

- 1) As the recovery rate is volumetric, the major driver is usage variation. For example, warmer weather causes less usage than assumed and results in an under-recovered position as seen in July, August, September, October, December 2021, and February 2022,
- 2) Lower recovery in month one of the recovery period, July 2021, due to billing cycles, and
- 3) Conversion Fee recoveries in October 2021 and February 2022.

Table 1 below demonstrates the monthly variances, reconciles to the variance noted in the Report, and demonstrates the variance between the assumed volumetric recovery distribution utilized in October 2021, versus the distribution filed in

² 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, Black Hills Nebraska Gas, LLC, Docket NO. NG-111.1, Entered May 25, 2021.

May 2022.

Table 1: Monthly Comparison of 10/15/2021 and 05/03/2022 Recoveries

	Total Revenue Requirement (A)	Recovery Amounts			Diff (E) (D)-(A)	Volumetric Distribution			
		Volumetric (B)	Conv Fee (C)	Total (D) (B)+(C)		Oct 2021	May 2022		
						Assumed (F) See FN(7)	Actual/Est (G) (B) / Σ(B)		
Jul-21	\$ 584,358	\$ 279,117	\$ -	\$ 279,117	(2)	\$ (305,241)	2.0%	1.0%	
Aug-21	\$ 572,604	\$ 567,287	\$ -	\$ 567,287	(2)	\$ (5,317)	2.0%	2.1%	
Sep-21	\$ 535,113	\$ 569,279	\$ -	\$ 569,279	(2)	\$ 34,167	1.7%	2.1%	
Oct-21	\$ 1,052,834	\$ 667,523	\$ 13,000	\$ 680,523	(2)	\$ (372,311)	3.2%	2.5%	
Nov-21	\$ 2,374,925	\$ 1,884,881	\$ -	\$ 1,884,881	(2)	\$ (490,044)	8.3%	7.0%	
Dec-21	\$ 3,960,384	\$ 3,228,855	\$ -	\$ 3,228,855	(2)	\$ (731,528)	14.4%	12.0%	
Jan-22	\$ 5,025,973	\$ 5,134,015	\$ -	\$ 5,134,015	(2)	\$ 108,041	18.5%	19.1%	
Feb-22	\$ 5,118,493	\$ 5,195,183	\$ 39,000	\$ 5,234,183	(2)	\$ 115,691	18.9%	19.3%	
Mar-22	\$ 3,943,136	\$ 4,650,725	\$ -	\$ 4,650,725	(3)	\$ 707,589	14.5%	17.3%	
Apr-22	\$ 2,571,517	\$ 2,560,100	\$ -	\$ 2,560,100	(4)	\$ (11,417)	9.2%	9.5%	
May-22	\$ 1,350,696	\$ 1,407,466	\$ -	\$ 1,407,466	(4)	\$ 56,770	4.6%	5.2%	
Jun-22	\$ 837,042	\$ 768,580	\$ -	\$ 768,580	(4)	\$ (68,462)	2.6%	2.9%	
	\$ 27,927,076	\$ 26,913,012	\$ 52,000	\$ 26,965,012	(5)	\$ (962,064)	(6)	100%	100%

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

(2) Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Actuals, Ln 5.

(3) Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Actuals, Ln 8

(4) Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Estimated, Ln 11

(5) Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Ln 12

(6) Report, Page 4.

(7) Supplemental Comments in Support of Semi-Annual Report (October 15, 2021), Confidential Exhibit 2, row 51 Volumetric Recovery Assumed Jul-21 through Jun-22.

❖ **Report Finding #3:** 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.

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

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

- **Black Hills Energy’s Response:** The \$1.1 million estimated shortfall was based on a high-level estimation, described below and further demonstrated in Table 2.

The amount to be recovered during the first year of the three-year recovery period, was estimated as the total amount to be recovered over the recovery period, Table 2 Line 1, divided by three, Table 2 Line 2, resulting in an annual amount of approximately \$28.1 million, Table 2 Line 3.

Recovery amounts, including actual recoveries July 2021 through March 2022, Conversion Fee recoveries, and estimated recoveries April 2022 through June 2022, were reported by the Company as approximately \$27.0 million, Table 2 Line 4.

Amounts to be recovered, \$28.1 million, exceed amounts recovered, \$27.0 million, resulting in the Company's high-level estimate of a \$1.1 million recovery shortfall, the difference between \$28.1 million and \$27.0 million, Table 2, Line 5.

Table 2: Recovery Shortfall Estimate; Year 1

<u>Ln</u>	<u>Description</u>	<u>Source</u>	
1	Total Commodity Costs Plus Carrying Costs	FN (1)	\$ 84,186,069
2	Recovery Period (Years)	FN (2)	3
3	Estimated Annual Commodity Costs Plus Carrying Costs	Ln1 / Ln2	\$ 28,062,023
4	Estimated Recoveries through Jun 2022	FN (3)	\$ 26,965,012
5	Estimated Recovery Shortfall; Year 1	Ln4 - Ln3	\$ (1,097,011)

(1) Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Actuals, Ln 4.

(2) Order Approving Recovery Plan (May 25, 2021).

(3) Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Actuals, Ln 12.

The Company agrees, when analyzing year one individually, as listed in the Report and demonstrated in the Company's Response to Report Finding #2, the shortfall is more accurately approximately estimated as \$1.0 million. However, the Company's high-level estimate, \$1.1 million, and the Report's estimate, \$1.0 million, both overestimate the proposed, or actual, shortfall to be recovered. The methodology utilized in the May 2022 Annual True-Up filing calculated an increase in the recovery rate of \$0.00240, resulting in a recovery of approximately \$0.8 million over recovery years 2 and 3, total. See Table 3 below.

Table 3: Estimated Shortfall Recovery, Years 2 & 3

<u>Ln</u>	<u>Description</u>	<u>Source</u>	
1	Estimated Vols Years 2 & 3	FN (1)	340,070,898
2	Recovery Rate Increase/Decrease	FN (2)	\$ 0.00240
3	Estimated Shortfall Recovery over Years 2 & 3	Ln1 * Ln2	\$ 816,170

(1) Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Actuals, Ln 14.

(2) Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Actuals, Ln 18.

Lastly, of the major causes listed in the Company's response to Report Finding #2, the major causes for the shortfall are;

- 1) As the recovery rate is volumetric, the major driver is usage variation. For example, warmer weather causes less usage than assumed and results in an under-recovered position as seen in July, August, September, October, December 2021, and February 2022, and
- 2) Lower recovery in month one of the recovery period, July 2021, due to billing cycles.

❖ **Report Finding #4:** Blue Ridge found that the Company's filing does not indicate whether the conversions have been reflected in the total recoveries.

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.

- **Black Hills Energy’s Response:** The Company confirms, and demonstrates, Conversion Fee Recovery amounts are reflected in the Total Recoveries and thus included in the calculation of the Revised Recovery Rate.

The Revised Recovery Rate³ includes Total Recoveries through 02/28/2022⁴ taken directly from the April 29, 2022, NG-111.1, Semi-Annual Purchased Gas Costs Progress Report⁵. As demonstrated in the April 29, 2022, filing, the Total Recoveries amount includes \$52,000 of Conversion Fee Recovery⁶. Therefore, Conversion Fee Recovery amounts are reflected in Annual True-Up Total Recoveries and the Revised Recovery Rate.

Table 4 below follows the Conversion Fee Recovery amount through the calculation of the Revised Recovery Rate.

Table 4: Conversion Fee Recovery Dependency Tracing
Tracing Remarks in Italics

<u>Ln</u>	<u>Description</u>	<u>Calculation</u>	April 29, 2022 NG-111.1, Semi- Annual Purchased Gas Costs Progress Report	May 3, 2022 Recovery of Storm Uri, February 2021, Annual True-Up
15	Conversion Fee Recovery <i>Line 15 is included in the calculation of Total Recoveries.</i>	Conversion Recovery 07/01/2021 through 02/28/2022	\$ 52,000	
16	Total Recoveries (1)	Ln10 + Ln13 + Ln15	\$ 17,578,140	
<i>April 26, 2022, Line 16, Total Recoveries, which includes Conversion Fee Recovery, is sourced directed.</i>				
5	Total Recoveries through 02/28/2022 <i>Line 5 is included in the calculation of Line 12.</i>	April 29, 2022, NG-111.1, Semi-Annual Purchased Gas Costs Progress Report; Ln 16		\$ 17,578,140
12	Estimated Recoveries through Jun 2022 <i>Line 12 is included in the calculation of Line 13.</i>	Ln5 + Ln8 + Ln11		\$ 26,965,012
13	Estimated Balance 6/30/2022 <i>Line 13 is equal to Line 15.</i>	Ln4 - Ln12		\$ 57,221,057
15	Recovery Balance <i>Line 15 is included in the calculation of Line 17.</i>	Ln13		\$ 57,221,057
17	Revised Recovery Rate 07/01/2022 EffDate <i>Therefore, Line 17, Revised Recovery Rate includes Conversion Fee Recovery amounts.</i>	Ln15 / Ln14		\$ 0.16826 per therm

The Company appreciates the PA’s review and believes the responses above should sufficiently address the concerns raised in the Report. Therefore, the Company agrees with the Report’s Finding #5 that the modified rate be approved.

³ Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Ln 17.

⁴ Annual True-Up of Storm URI, Feb 2021, Recovery Rate (May 3, 2022), Ln 5.

⁵ Recovery of Storm URI, Feb 2021, Purchased Gas Costs Progress (April 29, 2022), Ln 16.

⁶ Recovery of Storm URI, Feb 2021, Purchased Gas Costs Progress (April 29, 2022), Ln 15.

Please contact me at (402) 858-3561 if you have any questions or need additional information.

Sincerely,

/s/ Tyler E. Frost

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and

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