Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Docket No. NG-111.1/PI-237
Review of February 2021 Cold Weather Event Cost Recovery Proposal

EXECUTIVE SUMMARY

On March 2, 2021, the Nebraska Public Service Commission ("Commission") opened a docket to gather information regarding and to formulate a response to the effect of the February 2021 cold weather event on the cost of gas supply purchased by Nebraska gas utilities subject to the Commission's jurisdiction.

Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (BHE or "Company") proposes to recover ~$86.5 million (which includes $79.75 million in incremental commodity costs and $6.75 million in carrying charges) over 36 months through a separate Cold Weather Gas Cost Recovery Mechanism at $0.17332 per therm for all existing and new GCA residential and commercial customers in Rate Areas One, Two, and Three.

Carrying costs would be a blended rate of 0.920% (February 2021–September 2021), and WACC would be 6.71% (after October 2021).

Volumetric recovery would have higher impact to bills in winter months when usage is higher and lower impact in summer months. The average residential customer would have a monthly increase of less than $10/month, $120/year. The average commercial customer would have a monthly increase of less than $38/month, $457/year.

Blue Ridge has several recommendations as discussed in the Discussions and Recommendations section of this report.

1) The Commission should consider reducing the Company's request for the full WACC and consider carrying costs be calculated based on the actual cost rates.
2) Should the Company's per therm proposal recovery be accepted, the Commission should include a requirement that the Company publicize the availability of budget billing to level out the impact of the Cold Weather Gas Cost Recovery Mechanism.
3) Any increased jurisdictional firm revenue (during the period of the Cold Weather Gas Cost Recovery) resulting from the transfer of interruptible customers to firm service due to winter storm Uri should be used to offset Cold Weather Gas Costs. Otherwise, this new revenue, which is a result of the winter storm event, will accrue to the Company and its stockholders.
4) The Commission should monitor the natural gas weatherization changes eventually implemented in Texas to determine whether Texas regulatory changes (if any) are sufficient to protect Nebraska customers from future events similar to 2011 and 2021.
5) The Commission should forward its determination of the magnitude of the extreme costs of winter storm Uri to the NE Attorney General for evaluation as to whether the gas pricing mechanism used during winter storm Uri was inappropriate and/or subject to price manipulation. While remedies within Nebraska may not exist, a concerted and coordinated effort by states affected by the Texas problems should be considered at the federal and/or class action level.

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BACKGROUND

Commission Order (March 2, 2021)

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 Nebraska Gas, LLC d/b/a Black Hills Energy (BHE or "Company") 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 March 2, 2021, the Nebraska Public Service Commission ("Commission") opened Docket No. NG-111/PI-237 ("cold weather docket") in order to understand the effects of this cold weather event (winter storm Uri) on the cost of gas supply purchased by Nebraska gas utilities subject to the Commission's jurisdiction and to consider options to mitigate its impact upon customer bills.

The Commission extended the protections against disconnection to protect Nebraska residents from natural gas disconnections due to unexpected high bills through May 31, 2021. The Commission also found that the extraordinary costs of purchasing gas related to the cold weather event should not be included in the gas cost adjustments until further findings were made in the cold weather docket. BHE was directed to track costs related to the February cold weather event separately from its gas cost adjustment mechanism. This holding of the weather event costs outside the usual tariff provisions will remain in effect until further order of the Commission.

Additionally, the Commission found a need for BHE to present information to the Commission regarding the status of customer bills due to the cold weather event. The BHE workshop was scheduled on April 6, 2021. The Commission ordered that, at the workshop, the utility should present information on the following topics:

1) A summary of the impact of the cold weather event on the cost of natural gas purchased by the utility as a result of this cold weather event
2) A statement and explanation from the utility as to the exact dates that should be included in any cost recovery mechanism, whether those dates are February 13–17, 2021, or extended beyond that time frame
3) A summary of the anticipated impact on customer bills due to the extraordinary costs of the cold weather event, including a statement as to typical costs for the month of February, and a bill impact analysis showing the anticipated change in customer bills, as a percentage of a typical bill, prospectively for the next 12 billing cycles and separated by customer class
4) A summary of the impact of the extraordinary costs of the cold weather event on customer bills for those customers who exercise an annual price (budget billing) option, beginning with the next upcoming program year and separated by customer class
5) At least two (2) proposals to mitigate the impact of the extraordinary costs of the cold weather event on customer bills through the next 12 billing cycles

Within one (1) week following the workshop, each utility will be required to submit a written proposal to mitigate the impact on customer bills from this cold weather event for Commission consideration and approval. Each such proposal will include a modified bill impact analysis as well as concise statements of any action the utility requests the Commission take. Each proposal should also demonstrate only the actual costs of gas purchased during the cold weather event, including carrying costs, but should not contemplate any return on the purchase anticipated by the utility.

INFORMATION PROVIDED BY BHE

<u>BHE Response to Commission Order (March 31, 2021)</u>

On March 31, 2021, BHE provided the information required by the Commission in its Order. On April 6, 2021, BHE provided additional information during the workshop. The information provided is summarized below.

Commission Request #1: A summary of the impact of the cold weather event on the cost of natural gas purchased by the utility as a result of this cold weather event

> <u>BHE Response</u>: Even with the increase in demand, the Company stated that BHE avoided loss of service to its Nebraska customers.
>
> The estimated impact that the Company would seek to include in a recovery mechanism is approximately $80 million before carrying costs. The table below summarizes the estimated impact by customer class.

	Residential	Commercial	Total
Annual Normalized Therms	122,127,052	44,236,866	166,363,918
Class % of Total Therms	73.4%	26.6%	
Avg No. of Customers	177,060	16,667	
Estimated Cost / Class	$ 58,720,000	$ 21,280,000	$ 80,000,000
Estimated Cost / Cust	$ 332	$ 1,277	
Avg Customer Recovery per Month under 5 Different Recovery Periods			
12 mo recovery	$ 27.64	$ 106.40	
24 mo recovery	$ 13.82	$ 53.20	
36 mo recovery	$ 9.21	$ 35.47	
48 mo recovery	$ 6.91	$ 26.60	
60 mo recovery	$ 5.53	$ 21.28	

Commission Request #2: A statement and explanation from the utility as to the exact dates which should be included in any cost recovery mechanism, whether those dates are February 13–17, 2021, or extended beyond that time frame

> <u>BHE Response</u>: BHE advocates for a period of February 12, 2021, through February 18, 2021. Although gas purchases incurred on February 12, 2021, and February 18, 2021, were not priced as high as those from February 13, 2021, through February 17, 2021, those gas supply purchases were significantly higher than the gas purchases available to BHE for the first part of the month. BHE believes that expanding the time period to include February

12, 2021, through February 18, 2021, will benefit customers in the long run by allowing a longer recovery period for the cost weather event costs rather than including them in the normal GCA recovery period.

Commission Request #3: A summary of the anticipated impact on customer bills due to the extraordinary costs of the cold weather event, including a statement as to typical costs for the month of February, and a bill impact analysis showing the anticipated change in customer bills, as a percentage of a typical bill, prospectively for the next 12 billing cycles and separated by customer class

BHE Response: Any rate impact will apply to BHE customers who (a) are located in Rate Area One (Metro-Omaha area), Rate Area Two (Lincoln), and Rate Area Three (Communities in the eastern-third of Nebraska) and (b) consume sales gas procured by BHE under the GCA mechanism.

Customers in Rate Area 5 are not impacted because those customers are provided natural gas through the Choice Gas Program. The impact of gas costs on Residential and Commercial customers which are passed onto Rate Area Five Choice Gas Program customers will be different from the costs of gas purchased by BHE for GCA customers located in Rate Areas One, Two, and Three. BHE's understanding is that the majority of residential and commercial customers served by Choice Gas Program Suppliers will not be significantly impacted. Under that program, the Choice Gas Supplier will incur the market risk for extreme costs associated with incremental gas supply purchases and transportation imbalances resulting from the cold weather event.

Costs for the month of February in the previous five years have ranged from about $8.5 million to about $13 million. Using the billing rates effective March 1, 2021, and assuming a three-year recovery, the following chart reflects the estimated impact of the extraordinary costs on a typical residential and commercial annual bill:

	Current **Annual Bill**	Proposed **Annual Bill**	Change	% Change
Avg Residential	$664	$774	$110	16.7%
Avg Commercial	$2,023	$2,445	$422	20.9%

A more detailed average bill impact by month was provided electronically in Microsoft Excel ("Excel") format and is summarized below.

Costs for February for the last five years have ranged from $8.5 million to approximately $13 million.					
Preliminary Cost Estimate	$ 80,000,000				
Annual Normalize Therms	166,363,918				
Recovery Period (years)	3				
Annual Recovery	$ 26,666,667				
Recovery Rate $/therm	$ 0.16029				
	Avg Residential Bill				
		Current	Proposed	Change	Change
	Therms	$	$	$	%
Apr-21	65	$ 60.24	$ 70.66	$ 10.42	17.3%
May-21	33	$ 42.12	$ 47.41	$ 5.29	12.6%
Jun-21	18	$ 32.91	$ 35.80	$ 2.89	8.8%
Jul-21	14	$ 29.22	$ 31.46	$ 2.24	7.7%
Aug-21	13	$ 28.29	$ 30.38	$ 2.08	7.4%
Sep-21	12	$ 27.37	$ 29.29	$ 1.92	7.0%
Oct-21	21	$ 35.33	$ 38.70	$ 3.37	9.5%
Nov-21	57	$ 55.71	$ 64.85	$ 9.14	16.4%
Dec-21	99	$ 79.49	$ 95.36	$ 15.87	20.0%
Jan-22	127	$ 95.34	$ 115.70	$ 20.36	21.4%
Feb-22	131	$ 97.60	$ 118.60	$ 21.00	21.5%
Mar-22	100	$ 80.05	$ 96.08	$ 16.03	20.0%
	690	$ 663.68	$ 774.28	$ 110.60	16.7%
	Avg Commercial Bill				
		Current	Proposed	Change	Change
	Therms	$	$	$	%
Apr-21	230	$ 174.41	$ 211.28	$ 36.87	21.1%
May-21	109	$ 105.91	$ 123.38	$ 17.47	16.5%
Jun-21	63	$ 79.87	$ 89.97	$ 10.10	12.6%
Jul-21	58	$ 77.04	$ 86.34	$ 9.30	12.1%
Aug-21	62	$ 79.30	$ 89.24	$ 9.94	12.5%
Sep-21	44	$ 69.11	$ 76.17	$ 7.05	10.2%
Oct-21	94	$ 97.42	$ 112.49	$ 15.07	15.5%
Nov-21	226	$ 172.15	$ 208.37	$ 36.23	21.0%
Dec-21	385	$ 262.16	$ 323.87	$ 61.71	23.5%
Jan-22	497	$ 325.57	$ 405.23	$ 79.66	24.5%
Feb-22	497	$ 325.57	$ 405.23	$ 79.66	24.5%
Mar-22	371	$ 254.24	$ 313.71	$ 59.47	23.4%
	2,636	$ 2,022.76	$ 2,445.28	$ 422.52	20.9%

Commission Request #4: A summary of the impact of the extraordinary costs of the cold weather event on customer bills for those customers who exercise an annual price (budget billing) option, beginning with the next upcoming program year and separated by customer class

BHE Response: Customers may enroll in a budget billing plan during any month of the year.

The Company will recalculate the budget billing amount monthly based on a rolling average of the most recent twelve (12) months' bills. The Customer's budget bill amount will not change unless there is at least a ten percent (10%) difference in the calculated budget bill amount and the previous month's budget bill amount. The Budget Billing amount is recalculated annually based on the month enrolled. As stated in the Tariff, the Company will notify the Customer of any change to the Budget Billing amount.

Any recovery of extraordinary costs would need to exceed the ten percent (10%) threshold to trigger a recalculation of a Customer's Budget Billing amount. Since the Budget Billing amount calculation is based on a rolling twelve (12) month average, the impact of any monthly recovery amount would by muted by a factor of twelve. Therefore, considering only the impact of extraordinary costs, it will take several months for the cumulative monthly impacts to result in a recalculation. Based on preliminary calculations and current estimates and depending on the month implemented, the recovery of extraordinary costs for the average Customer would trigger the recalculation event in months six (6) and ten (10) after implementation of a recovery mechanism. At such time, the most recent twelve (12) month's rolling average will become the Customer's new Budget Bill amount.

Commission Request #5: At least two (2) proposals to mitigate the impact of the extraordinary costs of the cold weather event on customer bills through the next 12 billing cycles

BHE Response: The Chart provided in response to the first question above provides the customer impact over a five (5) year period. BHE is willing to proceed with any one of those options but would prefer to recover the costs over a three (3) year period.

Workshop (April 6, 2021)

During the workshop held on April 6, 2021, the following items were discussed.

- There was no loss of natural gas for firm customers.
- Several of the interruptible customers could not interrupt. They will be moved to firm or must confirm that they can cut over to stay on the interruptible rate.
- The Company spent as much for gas supplies during the seven-day February 2021 period as it normally spends on gas costs over an entire year.
- Costs are estimated to be $80 million without carrying costs.
- A longer period of recovery could impact the rate that would need to be applied for carrying costs.
- The Company will provide a written response regarding these questions: What information does BHE have regarding anticipated carrying costs for the various recovery periods considered? and Why was a 3-year recovery period chosen over a 5-year recovery period?
- The Company had some hedges but not enough to cover the dramatic increase. Peaks were not covered. The Company will provide additional information.
- The refund from the rate case (NE-109) will not offset the weather event recovery. The rate case refund is a one-time return. Gas costs would be recovered over three years.
- The added days (February 12 and 18) increase the amount to be recovered but would be spread over more years reducing rate shock.
- The Company is not aware of any FERC-related relief.

- The Company will provide a written response regarding information on the actual gas usage and costs incurred for February 12, 2021, and February 18, 2021. The response will also discuss why those dates should be included in the recovery period.
- Iowa and Nebraska recoveries are similar. Other states are looking at different recoveries. In Arkansas and Kansas, the Company is still working through the data.
- Recovery is based on a per therm rate and not a flat rate. There is higher usage in February, so an average doesn't reflect the whole story.
- Consideration was given to whether the recovery can be set up to mitigate rate shock, such as whether it can be levelized between summer and winter. The average customers rates are Summer $2.00 and Winter $20.00. The Company stated that budget billing could help.
- The Company will provide a written response regarding the per therms by class for February 2021 in comparison to the usage in February of prior years.
- Gas was purchased from the same suppliers and not the spot market. However, the buying was incremental. There was a lot of competition from electric and gas utilities. Prices per dekatherm ranged from NGPL=$381/Dth, Northern=$200/Dth–$232.Dth, Tall Gas=$200/Dth.
- Allegations of profiteering are being investigated in other states. Kansas-AG is investigating. It was an issue in Texas. FERC is exploring whether there was price manipulation, but it is a difficult issue.
- Choice Gas customers were shielded.
- The Company is exploring obtaining longer-term debt at a lower interest rate to cover all jurisdictions. Costs are likely to be at 3.1%. A higher issue ($800 million) might have a lower rate.
- MUD did well due to additional storage capacity.
- BHE operations are looking at storage options but could have substantial costs. Costs could be $100 million to serve Lincoln.
- BHE was fully winterized and had no operational issues.
- BE does track the market and production facilities.
- If there is any recovery related to any investigation on profiteering, customers will be credited.
- Interruptible customers that could not interrupt should provide an affidavit that they will interrupt.
- The Commission needs to move quickly to allow access to lower-cost debt. A lot of utilities will be issuing bonds and competition will drive up costs.
- There is no capacity problem.

The Company agreed to respond in writing to the unsettled issues noted and to provide a written proposal for recovery.

BHE Response to Workshop Information Requests (April 30, 2021)

During the April 30, 2021, workshop, additional information was sought. BHE provided responses along with a formal proposal for recovery of the costs. The additional requests and responses are listed below.

Information Request #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?

> BHE Response: 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 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 to understand the agencies' concerns. Conversations and questions from each agency have been focused on BHC's 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.
>
> BHE's proposal for carrying 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 explained during the Workshop, a three-year period was selected since that period balances customer impact against the longer period of carrying costs. This period keeps monthly average bills for residential customers to less than $10 per month.

Information Request #2: Does Black Hills Energy anticipate any recovery from long hedging positions?

> BHE Response: No. While BHE 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.

Information Request #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?

<u>BHE Response</u>: 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.

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

<u>BHE Response</u>: The customer impacts presented by BHE 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	100	105	91
	231	238	213
Commercial Avg UPC			
February	497	532	468
March	371	395	340
	868	927	808

<u>BHE Proposed Recovery Plan (April 30, 2021)</u>

BHE proposes to recover ~$86.5 million (which includes $79.75 million in incremental commodity costs and $6.75 million in carrying charges) over 36 months through a separate Cold Weather Gas Cost Recovery Mechanism at $0.17332 per therm for all existing and new GCA residential and commercial customers in Rate Area One, Two, and Three.

Carrying costs would be a blended rate of 0.920% (February 2021–September 2021) and WACC would be 6.71% (after October 2021).

Volumetric recovery would have higher impact to bills in winter months when usage is higher and lower impact in summer months. The average residential customer would have a monthly increase of less than $10/month, $120/year. The average commercial customer would have a monthly increase of less than $38/month, $457/year.

The following items provide further detail of the Company's proposed recovery plan.

1) Amount Proposed for Recovery
   a) The following chart presents Total Costs proposed to be recovered.

Total Commodity Costs	$79,750,000
Short-Term Carrying Costs (2/24/21–9/30/21@0.92%)	$414,901
Long-Term Carrying Costs (10/21–4/24 @ 6.705%)	$6,337,228
Total	$86,502,129
Recovery Rate $/Therm	0.17332

   b) The following chart presents extraordinary costs by suppliers.

February Supply Purchases	Established PGA Process	Extraordinary Deferred Amt
Northern	$ 5,574,912	$ 65,955,881
NGPL	1,055,184	10,133,606
TallGrass	548,287	3,657,781
	$ 7,178,383	$ 79,747,268
Round Deferred Amt	(2,732)	2,732
Total	$ 7,175,650	$ 79,750,000

   c) The method to determine extraordinary costs includes these steps:
      i) Extraordinary gas supply costs have been tracked separately from the normally incurred GCA gas flowing through the established GCA mechanism.
      ii) February 12–18 gas supply commodity purchases were isolated.
      iii) The Company calculated a "normal" February weighted average cost of gas (WACOG) from the remaining supply purchases.
      iv) That WACOG was then used to value a "normal" cost for the February 12-18 gas purchases.
      v) The Company proposes to defer the costs above the "normal" WACOG.
   d) 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.
   e) The Plan does not include any interstate pipeline penalties or charges or interstate pipeline imbalance cash outs within the accounting for the Cold Weather Gas Cost Recovery Mechanism
   f) The Plan does not include the cost of any other normal gas supply commodity or interstate natural gas pipeline costs from February 2021.
   g) The Plan is based on information and invoices to date.
      i) The Plan may change over next 90 days to reflect new information.
      ii) Immaterial adjustments could be collected through existing GCA.
      iii) If material, cost recovery would be assigned to customers in the same manner as the Cold Weather Gas Cost Recovery Mechanism is assigned.
   h) Any government assistance, credits, or refunds related to the February 2021 event will be assigned to customers in the same manner as the Cold Weather Gas Cost Recovery Mechanism is assigned.

2) Recovery Period
   a) The length of the recovery period would be 36 months.
   b) The duration was selected to mitigate monthly bill impacts on customers without imposing a financial hardship on the Company or incur unnecessary carrying costs.
   c) Recovery starts no later than 60 days after Commission approval.
   d) Carrying costs are to start February 2021 and conclude with full recovery.

3) Customer Impact
   a) The customer impact will be $0.17332 per therm.
   b) For the average residential customer, the monthly increase would be less than $10/month, $120/year.
   c) For the average commercial customer, the monthly increase would be less than $38/month, $457/year.
   d) Volumetric recovery would have higher impact to bills in winter months when usage is higher and lower impact in summer months.

	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%

4) Carrying Costs
   a) BHC obtained an $800 million unsecured term loan, maturing on November 24, 2021, with interest rate of LIBOR plus 75 basis points.
   b) The loan will be used to fund natural gas purchases made in February 2021 and provide additional liquidity.
   c) The Company expects a portion to be paid before maturity and refinanced with long-term debt and equity.
   d) The Company proposes a blended rate for carrying costs.
      i) From February 2021 through September 2021, the rate would be 0.920%.
      ii) Starting in October 2021 (after short-term debt is repaid), the rate would be the 6.71% WACC approved in the most recent general rate case.

5) Recovery Mechanism
   a) The Cold Weather Gas Cost Recovery Mechanism was based on per therm usage.
   b) Customers who use more gas during the 36 months will pay more of the cost recovery.
   c) The Company considers this mechanism the most efficient method of recovery.
   d) The mechanism applies to Rate Area One, Two, and Three firm GCA customers.
   e) Customers who conserve gas in the future will pay less than customers who consume more.
   f) The plan anticipates the majority of gas supply customers will pay a share of the cold weather costs in proportion to their historic usage.

   g) Transportation and interruptible customers will not be assessed the Cold Weather Gas Cost Recovery Mechanism.
   h) Customers who terminate gas service will not be assessed the Cold Weather Gas Cost Recovery Mechanism as an exit fee.
   i) If any prior customer returns or reactivates a gas supply GCA or APO account, that customer would be assessed the Cold Weather Gas Cost Recovery Mechanism for ongoing service.
   j) The Company investigated whether it could track migration of customers or exclude new customers but determined that such options are not economically feasible or administratively efficient.
   k) Annual Price Option (APO)
      i) Customers enrolled in the 2020–2021 APO Program will not be assessed the Cold Weather Gas Cost Recovery Mechanism.
      ii) Cold Weather Gas Cost Recovery Mechanism will be included in future APO offerings.
      iii) 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.

6) Reconciliation
   a) Over or under recovery due to a volumetric mechanism will be handled through the GCA as part of the final reconciliation and termination of the Cold Weather Gas Cost Recovery Mechanism in 2024.
   b) The Company will provide an annual true-up and status report on or near May 1 each year using actual information ending March 31.

7) Expedited Approval
   a) The Company needs regulatory certainty to enter into long-term debt issuances.

Discussion and Recommendations

The Company is requesting a blended rate for carrying costs which includes the actual cost of the short-term debt (0.920%) for February 2021–September 2021 and switches to the 6.71% WACC, approved in the most recent general rate case, starting in October 2021 (after the short-term debt is repaid). The WACC of 6.71% is based on the following calculation.

Capital Structure	ROE	Actual Cost of Debt	Weighted Cost of Capital
50% Equity/50% Debt	9.5%	3.91%	6.71%

During the workshop, the Company stated it was looking into obtaining longer-term debt at a lower interest rate to cover all jurisdictions. The Company stated that costs are likely to be at 3.1%. The Company also stated that a higher issue ($800 million) might have a lower rate. The Company's estimated 3.1% (and possibly lower) cost of long-term debt is less than the 3.91% reflected in the approved WACC.

BHC indicates that rating agencies are expecting that a three-year term loan should be supported by both debt and equity at the WACC. However, it is not known how much the Company will obtain in longer-term debt and how much of the deferred amount, if any, would be covered with equity. If the equity component is less than the 50% reflected in the approved WACC, the Company will be making a windfall from the deferral.

Investment or expenditures made between rate cases that are not covered by a cost recovery mechanism do not earn any return on equity until the next rate case.

> Recommendation: The Commission should consider reducing the Company's request for the full WACC and consider carrying costs be calculated based on the actual cost rates.

The Company's proposal to collect the excess costs from winter storm Uri as a per therm charge will raise monthly customer costs in the winter and potentially be further aggravated if the weather is colder than normal.

> Recommendation: Should the Company's per therm recovery proposal be accepted, the Commission should include a requirement that the Company publicize the availability of budget billing to level out the impact of the Cold Weather Gas Cost Recovery Mechanism.

Several BHE interruptible customers did not or were not able to interrupt and thus added to the costs for the winter storm Uri event. These customers received lower distribution costs until the event. BHE has indicated that several of these customers will be shifted to firm service.

> Recommendation: Any increased jurisdictional firm revenue (during the period of the Cold Weather Gas Cost Recovery) resulting from the transfer of interruptible customers to firm service due to winter storm Uri should be used to offset Cold Weather Gas Costs. Otherwise, this revenue, which is a result of the winter storm event, will accrue to the Company and its stockholders.

Anecdotal information indicates that the lack of weatherization of the natural gas infrastructure in Texas contributed to reduced production and the resulting stark and extreme increase in price. Potentially, a natural gas producer could have delivered some gas from production facilities that were not severely affected while being unable to provide or deliver gas from other facilities. Due to the extreme increase in price per therm, a producer may have received a windfall of revenue while producing and/or delivering less gas overall. The lack of preparation for cold weather was not a unique event,[1] as it occurred in 2011, and is the subject of various reviews and recommendations including those provided by the FERC.[2] Therefore, Nebraska customers are being asked to pay the extreme costs as a result of a failed regulatory regime in Texas along with the costs of BHE's weatherized system.

> Recommendation: The Commission should monitor the natural gas weatherization changes eventually implemented in Texas to determine whether Texas regulatory changes (if any) are sufficient to protect Nebraska customers from future events similar to 2011 and 2021.

> Recommendation: The Commission should forward its determination of the magnitude of the extreme costs of winter storm Uri to the NE Attorney General for evaluation as to

[1] https://www.washingtonpost.com/weather/2021/02/22/texas-cold-snap-predictable-foreseeable/
[2] https://www.ferc.gov/sites/default/files/2020-04/08-16-11-report.pdf (page 9)

whether the gas pricing mechanism used during winter storm Uri was inappropriate and/or subject to price manipulation.[3] While remedies within Nebraska may not exist, a concerted and coordinated effort by states affected by the Texas problems should be considered at the federal and/or class action level.

SUPPORTING DOCUMENTS

1) NG-111/PI-237 Order Opening Docket, Creating Subdockets, and Setting Workshops; Notice of Assessment (March 2, 2021)
2) NG-111.1 BHE Responses to Commission Order dated March 2, 2021 (March 31, 2021)
3) BHE PowerPoint presentation from April 6, 2021, Workshop
4) BHE Response to Additional Information Requests and Proposal for Mitigation (April 30, 2021)

[3] https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2021/03/23/huge-winter-storm-gas-bills-push-cities-to-the-brink