

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of Black Hills/) Application No. NG-0074.1
Nebraska Gas Utility Company,)
LLC d/b/a Black Hills Energy,)
Omaha, Nebraska, seeking ap-)
proval of an infrastructure sys-) ORDER APPROVING SURCHARGE
tem replacement cost recovery)
charge, pursuant to Sections 66-)
1865 and 66-1866 of the State)
Natural Gas Regulation Act.) Entered: July 21, 2015

BY THE COMMISSION:

On April 6, 2015, Black Hills/Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy, Omaha, Nebraska (Black Hills) filed an application seeking approval of an infrastructure system replacement cost recovery charge (Application), pursuant to the State Natural Gas Regulation Act, §§ 66-1865 and 66-1866 (2010).

In the Application, Black Hills proposes to add the following monthly consumer charges: \$0.50 per month for residential customers, \$1.87 for commercial customers and \$2.31 for Energy Option-Firm customers. Black Hills states that the charges incurred would exceed its statutory jurisdictional revenue deficiency limit of \$1,515,269.00 collected from its jurisdictional customers. The revenue deficiency is the result of costs incurred and capitalized from eligible infrastructure replacement projects. These project costs were not included in Black Hills' rate base calculation from its most recent rate case before the Commission.

Notice of the Application was published in The Daily Record on April 8, 2015. A Petition for Formal Intervention was filed by the Public Advocate, which was granted by the Commission in its order entered April 28, 2015. A Petition for Informal Intervention was filed by SourceGas Distribution, LLC (SourceGas), which was granted by the Commission in its order entered May 27, 2015.

Pursuant to *Neb. Rev. Stat.* § 66-1866(3)(a), the Public Advocate conducted an examination of the proposed rate schedule and provided a report to the Commission regarding its examination on June 5, 2015. Black Hills filed its response to the Public Advocate's report on June 15, 2015. The Public Advocate and Black Hills entered into a joint stipulation and filed it with the Commission on June 29, 2015.

A hearing was held on this matter on July 9, 2015. Mr. Douglas Law and Mr. Adam Buhrman appeared on behalf of Black Hills, and Ms. Emily Wischnowski appeared on behalf of SourceGas. Mr. William Austin appeared as the Public Advocate, and Mrs. Jamie Reyes and Ms. Angela Melton appeared on behalf of the Commission.

Black Hills offered copies of its application, its response to the Public Advocate's report, and its tariff into the record. The Public Advocate offered copies of its report, and jointly offered with Black Hills its joint stipulation into the record. Black Hills and SourceGas jointly offered their joint stipulation into the record. All exhibits were entered into the record.

E V I D E N C E

During discovery, it was determined that a calculation error was made in the Accumulated Deferred Income Tax (ADIT) calculation. The Correction of the error resulted in an immaterial change in the ADIT calculation and produced an additional \$1,073.00 of jurisdictional revenue requirement.

Black Hills requested different charges for commercial and Energy Option customers in its Application. As set forth in Docket NG-0074, commercial customers and Energy Option classes should be treated in the same manner as in the most recent rate case. Therefore, the Public Advocate recommended these two classes be treated as one class in the setting of volumetric and fixed rates. Black Hills corrected its requested rates and amended its proposed tariff to reflect charges in the amount of \$0.50 for residential customers and \$1.96 for commercial and Energy Options - Firm customers.

The Public Advocate identified one project included in the Application that was a growth rather than a system integrity project. Therefore, it did not meet the current definition of "eligible infrastructure system replacement" pursuant to *Neb. Rev. Stat. §66-1082(2)* and was removed.

Finally, in Docket NG-0074, Black Hills had agreed to certain recommendations made by the Public Advocate as part of the settlement including a recommendation that a policy and procedure be established for the development of the Infrastructure System Replacement (ISR) Cost Recovery Charge and that the company monitor projects to ensure they are on budget. In the course of the review of the present Application, the Public Advocate reviewed the status of those various recommendations. Due to impending changes in the work

management systems of Black Hills, no procedures were established for the development of the ISR Cost Recovery Charge and that several projects continued to be over budget by more than 20%.

The Public Advocate and Black Hills stipulated to the following: Black Hills' processes and controls were adequate and not unreasonable so as not to adversely affect the costs in the Infrastructure System Replacement Charge; the application and supporting exhibits provided the required information, with the exception of missing construction dates not provided in the initial application; with the exception of one project which has been removed, all of the projects included are eligible for recovery; and the revenue requested is appropriate and the amount and timing of the request is within the criteria set forth by the Act.

The Public Advocate recommended that the application be granted and the amended tariffs be approved.

FINDINGS AND OPINION

A jurisdictional utility may apply "to ... change infrastructure system replacement cost recovery charge rate schedules that will allow for the adjustment of the jurisdictional utility's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements."¹

Certain limits exist on the types of projects to be included.²

Furthermore, the Commission cannot approve a proposed rate schedule if it would "produce total annualized infrastructure system replacement cost recovery charge revenue below the lesser of one million dollars or one-half percent of the jurisdictional utility's base revenue level approved by the commission in the jurisdictional utility's most recent general rate proceeding."³

In order to approve a charge, a jurisdictional utility must have had a general rate proceeding decided or dismissed by Commission order within the sixty months immediately preceding the application.⁴ Also, the Commission cannot approve a proposed rate schedule if the "schedules would produce total annualized

¹ Neb. Rev. Stat. § 66-1865(1) (2009).

² Neb. Rev. Stat. §66-1802(6).

³ § 66-1865(1)

⁴ § 66-1865(2).

infrastructure system replacement cost recovery charge revenue exceeding ten percent of the jurisdictional utility's base revenue level approved by the commission in the jurisdictional utility's most recent general rate proceeding."⁵

Based upon the Public Advocate's report, Black Hills' response, and the joint stipulations, the Commission finds that additional charges of **\$0.50** per month for residential customers and **\$1.96** for commercial and Energy Options-Firm customers effective August 6, 2015, should be approved generating pretax revenue of **\$1,515,269.00**.

The Public Advocate raised two areas of concern in its Report and Recommendation to the Commission related to the parties' stipulation in the previous ISR proceeding. The Commission understands that waiting for upcoming changes in Black Hills systems may be more efficient. However, when parties have reached a stipulation, we expect that any change in circumstances be communicated to the Commission and Public Advocate. The Public Advocate recommends, and the Commission agrees, that Black Hills must address these two areas before its next filing.

Black Hills shall, for the period of July 1 through June 30 annually, reconcile the differences between the revenue resulting from the charge and pretax revenue approved by the Commission. The reconciliation and a request for any adjustments necessary to recover or refund any differences shall be filed with the Commission within sixty (60) days of the end of each twelve-month period.

Black Hills shall not collect the charge for a period exceeding sixty (60) months after its initial approval unless within such period Black Hills has filed for or is the subject of a new general rate proceeding.⁶ However, Black Hills may collect the charge until the effective date of new rate schedules established as a result of the new general rate proceeding or until the general rate proceeding is otherwise decided or dismissed by the commission.⁷

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that effective August 6, 2015, infrastructure system

⁵ § 66-1865(1).

⁶ § 66-1865(3).

⁷ Id.

replacement cost recovery charges set forth herein are approved generating pretax revenue of **\$1,515,269.00**.

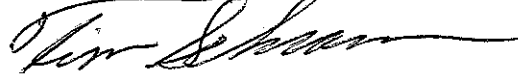
IT IS FURTHER ORDERED that the infrastructure system replacement cost recovery charge be set forth separately from other charge on ratepayers' bills and be designated as "Pipeline Replacement Charge".

IT IS FURTHER ORDERED that on or before August 3, 2015, Black Hills file with the Commission tariff sheets setting forth the charge.

IT IS FINALLY ORDERED that Black Hills shall, for the period of July 1 through June 30 annually, reconcile the differences between the revenue resulting from the charge and pretax revenue approved by the Commission. The reconciliation and a request for any adjustments necessary to recover or refund any differences shall be filed with the Commission within sixty (60) days of the end of each twelve-month period.

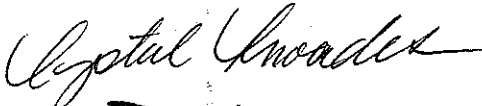
MADE AND ENTERED at Lincoln, Nebraska this 21st day of July, 2015.

NEBRASKA PUBLIC SERVICE COMMISSION



Vice Chairman

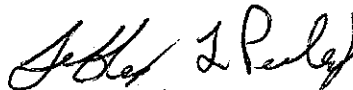
COMMISSIONERS CONCURRING:



//s//Frank E. Landis

//s//Tim Schram

ATTEST:



Executive Director