

SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of Application of) Application No. NG-0078.3
Black Hills Gas Distribution,)
LLC, d/b/a Black Hills Energy for)
an order authorizing it to) ORDER APPROVING 2017 SSIR
increase the Safety and Integrity) CHARGE
Charges and to Decrease the)
Pipeline Replacements Charges in)
its Nebraska Gas Tariff.) Entered: January 24, 2017

BY THE COMMISSION:

On October 3, 2016, Black Hills Distribution LLC, d/b/a Black Hills Energy (Black Hills), Denver, Colorado, filed an application with the Nebraska Public Service Commission (Commission) seeking an order authorizing it to increase the System Safety and Integrity Rider (SSIR) Charges and decrease its Pipeline Replacement Charges.

In its application, Black Hills seeks approval of projected 2017 SSIR costs totaling \$11,809,666. The current SSIR surcharge would increase for residential ratepayers by \$2.10 per month, small commercial ratepayers by \$4.48 per month, and large commercial ratepayers by \$30.51 per month. However, in conjunction with the increase, Black Hills proposes to eliminate its Pipeline Replacement Charge (PRC) rates. The increase of the SSIR surcharge, combined with the elimination of the PRC rate, results in a net increase of \$1.26 per month for residential ratepayers, \$2.68 per month for small commercial ratepayers, and \$19.13 per month for large commercial ratepayers. Previously approved SSIR projects and additional projects for 2017 result in a SSIR project balance of \$66,512,715 and a jurisdictional revenue requirement of \$6,548,995. The revenue requirement figure includes the 2015 Reconciliation.

Notice of the application was published in *The Daily Record* on October 6, 2016. A Petition for Formal Intervention was granted to the Public Advocate (PA). A hearing was held on December 13, 2016. Messrs. Douglas J. Law and Adam Buhrman appeared on behalf of Applicant; Messrs. William Austin and Collin Mues appeared on behalf of the PA; and Ms. Nichole Mulcahy appeared on behalf of Commission staff. Copies of the application, notice of application, and copies of "Examination of Black Hills Distribution, LLC, Application for Recovery of 2017 Eligible System Safety and Integrity Costs" (PA Report), "Response of Black Hills Distribution, LLC, to The Report of the Nebraska Public Advocate" (Company Response); and the "Joint Stipulation of the Public Advocate and Black Hills Distribution, LLC, d/b/a Black Hills Energy" (Stipulation) were entered into the record.

EVIDENCE

After performing an examination and analysis of all the information, in its Report, the PA recommends that Black Hills be allowed to recover the requested SSIR costs. However, the PA Report made several recommendations:

- 1) That Black Hills provide more thorough documentation of the reasoning behind the decision to include a project in the SSIR filing;
- 2) That Black Hills establish a checklist and/or training program to ensure understanding by all personnel of the determining qualifications;
- 3) That future SSIR filings include cost details associated with betterments, if applicable. There were no projects with betterments in the 2017 SSIR filing;
- 4) That the Company reflect the use of bonus depreciation in its SSIR Reconciliations, if applicable. The Company did not take any bonus depreciation on any SSIR assets put into service in 2015, the last year captured in the Reconciliation calculation;
- 5) That the effect of the rate case moratorium included in Docket NG-0084, approving the acquisition and merger of SourceGas Distribution, LLC, by Black Hills Utility Holdings, Inc.¹, on the SSIR be clarified.
- 6) That Black Hills provide the 2017 estimated overhead percentage, exclusive of an Allowance of Funds Used During Construction (AFUDC), and explain any changes to the 20% overhead rate used in the 2016 filing; and
- 7) That Black Hills continue to work to improve the cost estimation process, recommending the Company adopt a Post Installation Review Process to see if a project's initial expectations were realized. Such analysis, the report states, could then be used to modify the capital budgeting process to include better information in future analysis for cost estimations for projects.

¹ See Docket NG-0084, *In the Matter of the Joint Application of SourceGas Distribution, LLC, SourceGas, LLC, SourceGas Holdings LLC and Black Hills Utility Holdings, Inc. For All Necessary Authorizations and Approvals For Black Hills Utility Holdings, Inc., to Acquire SourceGas Holdings, LLC, Granted* (January 26, 2016).

During the hearing, the PA stated that due to the fact that this was the first year that Black Hills has engaged in the SSIR process, it was legacy SourceGas in the previous SSIR filings, that the PA and Black Hills had agreed to meet and confer about many requests and recommendations of the PA and flush out the recommendations in the report.

In its Response, Black Hills agreed with the ultimate recommendation of the PA and agreed to continue to work to address the issues raised by the PA, committing to the suggested meetings with the PA to discuss and confer on the issues. Further, regarding Recommendation #6, Black Hills explained that the difference from the 20% overhead rate used in the 2016 SSIR was primarily due to engineering labor charges that are now included in the overhead rate instead of being charged directly to corresponding capital projects as was the practice of legacy SourceGas in 2016.

On December 9, 2016, the PA and Black Hills entered into a stipulation recommending that the Commission enter an order approving the SSIR charge for 2017 costs. Additionally, Black Hills and the PA agreed to work together in good faith to further address the recommendations of the PA and seek Commission guidance and/or approval where warranted or necessary.

At the hearing the PA and Black Hills committed to meetings that included Commission Staff in the 1st Quarter of 2017 or mutually acceptable times thereafter, to discuss, confer, and review the issues raised in the PA Report.

FINDINGS AND OPINION

Pursuant to the State Natural Gas Regulation Act, Neb. Rev. Stat. § 66-1804(a) (2004 Cum. Supp.), the Commission has "full power, authority and jurisdiction to regulate natural gas public utilities and may do all things necessary and convenient for the exercise of such power, authority, and jurisdiction." The Legislature expressly intended that the powers granted to the Commission by the Act be "liberally construed."² Pursuant to its broad authority, the Commission approved Black Hills' SSIR tariff and established procedures for the annual filing, reporting, and

² "The State Natural Gas Regulation Act and all grants of power, authority, and jurisdiction in the act made to the commission shall be liberally construed, and all incidental powers necessary to carry into effect the provisions of the act are expressly granted to and conferred upon the commission." Neb. Rev. Stat. §66-1804(b).

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reconciliation.³ On January 27, 2015, the Commission approved the initial implementation of the SSIR for recovery of 2015 costs.⁴

Based upon the PA's review and report and the parties' stipulated agreement, the Commission finds that the projected 2017 costs set forth in the application are eligible and that the incremental increase to the SSIR charge should be approved.

The Commission further finds Black Hills and the PA shall meet in 1st Quarter 2017 or at other mutually agreed upon times in the first few months of 2017 to discuss, confer, and review the recommendations and findings in the PA's report. Commission staff shall be included in such meetings. Black Hills and the PA shall draft a report on the meeting(s) to file with the Commission by May 1, 2017, that shall detail the items discussed, agreements reached, if agreement was unable to be reached, the position of the company and the PA relative to the issue that remains unresolved, and any future action agreed to by any party as a result of the meetings. The filing shall also include any issues the parties think the Commission may need to take under consideration or provide guidance to the parties.

Black Hills shall comply with the requirements previously set forth in NG-0078, including the filing of quarterly surveillance filings and the filing of an annual reconciliation.

Finally, the tariff attached to the Stipulation⁵ showing the rates for the 2017 SSIR with an effective date of February 1, 2017, is hereby approved.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the stipulation be approved and the application be granted consistent with the terms of the stipulation.

³ In the Matter of the Application of Black Hills Distribution, LLC, Golden Colorado, seeking an order authorizing it to put into effect a system safety and integrity rider tariff and system safety and integrity rider charge, Docket NG-0078, Order Approving Application, in part (Oct. 24, 2014); In the Matter of the Application of Black Hills Distribution, LLC, Golden Colorado, seeking an order authorizing it to put into effect a system safety and integrity rider tariff and system safety and integrity rider charge, Docket NG-0078, Order Granting in Part and Denying in Part Motion for Reconsideration, (Nov. 24, 2014).

⁴ In the Matter of the application of Black Hills Distribution, LLC, Golden, Colorado, seeking authority to put into effect a System Safety and Integrity Rider Tariff and Safety and Integrity Rider Charge for recover of 2015 Eligible Costs, Order Approving 2015 SSIR Charge as Modified (Jan. 27, 2015).

⁵ See NG-0078.3, Hearing Exhibit #5.

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IT IS FURTHER ORDERED that representatives of Black Hills Distribution, LLC, d/b/a Black Hills Energy and the Public Advocate shall meet as outlined above and file with the Commission a report regarding the meeting(s) consistent with the findings above on or before May 1, 2017.

IT IS FINALLY ORDERED that the Thirtieth Revised Sheet No. 7 tariff attached to the Joint Stipulation of the Public Advocate and Black Hills Distribution, LLC, d/b/a Black Hills Energy showing the rates for the 2017 SSIR with an effective date of February 1, 2017, be, and is hereby, approved

ENTERED AND MADE EFFECTIVE at Lincoln, Nebraska, this 24th day of January, 2017.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Mary Riddle
Frank E. Landis

//s//Frank E. Landis
//s//Tim Schram

Tim Schram
Chairman

ATTEST:

Jeffrey L. Peden

Executive Director