

**STATE OF IOWA  
DEPARTMENT OF COMMERCE  
IOWA UTILITIES BOARD**

IN RE:  BLACK HILLS/IOWA GAS UTILITY COMPANY, LLC d/b/a BLACK HILLS ENERGY	DOCKET NOS. ARU-2021-0001, PGA-2020-0225
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**RECOVERY PLAN**

COMES NOW, Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy (“Black Hills” or “Company”) and, pursuant to the Iowa Utilities Board’s (“Board”) March 24, 2021, “Order Approving Regulatory Asset Account and Granting Waivers” (“March 24 Order”), hereby files this Recovery Plan to address how the Company intends to recover costs included in the regulatory asset account authorized in the March 24 Order.

**I. INTRODUCTION**

On February 19, 2021, the Board issued an order scheduling a meeting with rate-regulated utilities to discuss recovery of the significant increase in costs for electric power and natural gas that resulted from the February 2021 Polar Vortex (“February 19 Order”). In the February 19 Order, the Board recognized the difficulty Iowa customers may face from the unusually high bills associated with the Polar Vortex and requested that the utilities not pass through, prior to the meeting, the costs associated with the Polar Vortex that were above a normal winter storm. The Board also requested the utilities file plans to spread the costs over subsequent periods.

On February 24, 2021, Black Hills filed a Request for Accounting Order and Waiver of Board Rules (“February 24 Request”) requesting that the Board approve a regulatory asset account for the regulatory assets and liabilities associated with the costs and credits

resulting from the February 2021 Polar Vortex. Black Hills also presented a plan for recovery of the costs from customers.

On February 26, 2021, the Board issued an order shortening the time for filing responses to the Black Hills request. On March 5, 2021, the Office of Consumer Advocate (“OCA”), a division of the Iowa Department of Justice, filed a response to the request for a regulatory asset account and the waiver request.

On March 12, 2021, the Board held a meeting at which Black Hills and other utilities discussed plans for recovery of costs associated with the February 2021 Polar Vortex.

On March 24, 2021, the Board issued an order approving Black Hills’ request to create a regulatory asset account and granting necessary waivers (“March 24 Order”). The March 24 Order requested that further details of Black Hills’ Recovery Plan, such as the total costs to be recovered, what carrying costs are to be recovered, and the period of recovery be filed with the Board no later than April 15, 2021. In addition, the Board requested updated information about the costs and customer impacts of the February 2021 Polar Vortex.

## II. **BACKGROUND**

In February 2021, as the historic Polar Vortex engulfed the nation, the extreme weather forced utility outages across the country, preventing utilities from serving customers necessary and life sustaining energy. The gas supply was strained to levels not seen before, and as a result, the February 2021 Polar Vortex transformed into a market event. Despite these tremendous challenges, Black Hills is pleased to report to the Board that it was able to avoid any interruptions of firm service to its customers.

Black Hills' resilient employees performed remarkably in meeting customer needs and demands. Black Hills takes its obligation to serve very seriously and makes customer safety and natural gas delivery reliability a priority. To that end, Black Hills, and its service teams of dedicated employees, worked tirelessly for its customers before, during, and after February 2021 Polar Vortex. Accordingly, Black Hills now appreciates the opportunity to report to the Board on the significant gas cost ramifications of the February 2021 Polar Vortex.

To be clear, Black Hills fully understands and appreciates that the approximately \$95.4 million of incremental cost of natural gas during the February 2021 Polar Vortex is unique and extreme when compared to natural gas prices normally experienced during the winter. Black Hills was required to spend as much for gas supplies during the seven-day February 2021 Polar Vortex period as it normally spends on gas costs over an entire year. However, it should also be noted that the prudent management of existing infrastructure, gas portfolio planning, diversity of suppliers, gas contracting rights, interstate transportation capacity and storage assets acquired by Black Hills prior to the February 2021 Polar Vortex mitigated an even more extreme level of costs that may have been incurred during the cold weather without those natural gas assets in place.

The record cold event produced subzero temperatures that were even colder than weather data and news channels had predicted ahead of the cold weather event. That record cold weather over a large geographic area, particularly in the State of Texas, drove an unprecedented increased demand for electric and natural gas energy, which contributed to unforeseeable dramatic increases in natural gas supply prices well beyond the control of Black Hills.

As a result of the increased demand for electric and natural gas energy, Black Hills experienced significant natural gas commodity cost increases from its suppliers along with unavoidable interstate transportation costs due to extremely high demand and unique natural gas production interruptions. These natural gas purchases coupled with increased need for interstate pipeline transportation were critical to maintaining system reliability and to keep services available to customers in severe, life-threatening weather conditions.

Black Hills discusses below the actual impacts of these increases, including the natural gas commodity costs and associated carrying costs associated with the payment of invoices. Black Hills also addresses the impact of these costs on its Iowa customers and the proposed timeline to recover these costs.

### **III. RECOVERY PLAN**

#### **A. RECOVERY MECHANISM**

As noted above, on March 24, 2021, the Board issued an order approving Black Hills' request to create a regulatory asset account and granting necessary waivers to collect the costs contained within the regulatory asset account through its Purchased Gas Adjustment ("PGA") mechanism. It is the intention of Black Hills to create a regulatory asset account for these extraordinary costs and to collect them through its PGA mechanism, as permitted by the Board. Per the Board's March 24 Order, Black Hills has already begun collecting a portion of these costs in its April PGA filing.<sup>1</sup>

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<sup>1</sup> See Black Hills' March 31, 2021 April PGA filing in Docket No. PGA-2020-0025

## **B. TOTAL COSTS**

Black Hills is proposing to include approximately \$95,450,000 of natural gas commodity costs within the regulatory asset account. Black Hills is not including any interstate pipeline penalties or charges or interstate pipeline imbalance cashouts within the regulatory asset account. At this time, Black Hills has not included any carrying costs associated with the financing needed to pay natural gas commodity invoices. However, the Company is seeking approval from the Board to include carrying costs within the regulatory asset account as explained in further detail below.

To determine the deferred amount, the Company isolated the supply purchases from February 12 through February 18. The Company is not proposing to defer any other costs from February. Once the February 12-18 supply purchases were isolated, the Company 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 purchases. The Company is proposing to defer those costs above the “normal” WACOG. Supply purchases delivered off of 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. Confidential Exhibit 1 and supporting workpapers are provided in electronic format and include the following information:

- Exhibit 1, Schedule A summarizes the 2021 Polar Vortex Event Deferred Amount, excluding carrying costs, and shows the calculation of the preliminary recovery rate.

- Exhibit 1, Schedule B details, by pipeline, of the total supply purchases pooled for Iowa, Nebraska, and Kansas.
- Exhibit 1, Schedule C is a detailed supply report that shows the supply purchases by date.
- Confidential workpapers with additional supporting information for the allocation of the supply costs.

The initial amount of the regulatory asset account will be based upon the information and invoices Black Hills has received as of the date of this filing. This amount could be adjusted over the next 60-90 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 regulatory asset account, Black Hills is requesting it have the option of passing them through its PGA rather than accruing them in the regulatory asset. If not minimal, Black Hills will allocate the costs to customers in the same manner as the regulatory asset account is allocated.

If any government assistance, credits, or refunds related to the February 2021 Polar Vortex is received by Black Hills in the future, that amount will be allocated to customers in the same manner as the regulatory asset account and credited through the PGA.

### **C. RECOVERY PERIOD**

Black Hills is seeking recovery of the regulatory asset account over a thirty-six (36) month period. Black Hills wanted a period of time long enough that the monthly bill impacts would be reasonable for our customers, but not so long that it would be a financial hardship on the Company or incur unnecessary carrying costs that our customers ultimately have to pay. With the time period chosen, the impacts on average customer

bills are explained in further detail below. The thirty-six (36) month time period began with the April 2021 PGA filing and will conclude with the March 2024 PGA filing.

Black Hills recognizes that there may be an over or under recovery of the February 2021 Polar Vortex costs after each year since the recovery of those costs will be made through the PGA, which is a volumetric surcharge mechanism. Black Hills proposes to include any over or under recovery of the February 2021 Polar Vortex costs through the PGA as part of an annual reconciliation. Black Hills proposes to file an annual true-up on or near May 1 each year using actual information ending March 31. Black Hills will do the annual reconciliation through 2024 when the thirty-six (36) month recovery is complete.

#### **D. CUSTOMER IMPACTS**

Black Hills implemented a preliminary recovery rate of \$0.18123 per therm in April 2021, based on a thirty-six (36) month recovery period and total costs of \$95,450,000. In addition to these costs, Black Hills is also proposing to recover carrying costs. Black Hills will implement a revised recovery rate of \$0.19636 per therm effective upon Board approval for recovery of approximately \$103,421,880, which includes carrying costs as described in further detail below. During the three year recovery period, an average residential customer will see an average monthly increase of approximately \$12.86 (23%) and an average commercial customer will see an average monthly increase of approximately \$65.03 (29%). Black Hills 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 annual increase for the recovery period as well as an average winter and summer bill.

	<b>Avg Residential</b>		<b>Avg Commercial</b>	
	Increase	% Incr	Increase	% Incr
<b>Annual Bill</b>	154.34	23%	780.33	29%
<b>Annual Bill / 12</b>	12.86	23%	65.03	29%
<b>Winter Month Bill</b>	23.17	27%	115.46	31%
<b>Summer Month Bill</b>	5.50	15%	29.06	25%

**E. CARRYING COSTS**

Black Hills Corporation (“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 were used to initially fund the natural gas purchases made in February 2021 (by its 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. 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 is proposing to recover the costs associated with the February 2021 Polar Vortex over a three-year period, Black Hills will have to rely on longer-term financing options like long-term debt and equity following repayment of the short-term loan. Black Hills is proposing a blended carrying cost for recovery. Black Hills is requesting a carrying cost to reflect the cost of the initial short-term loan described above



to cover February 24, 2021 through September 30, 2021. Starting in October 2021, after the short term debt is repaid, Black Hills proposes a per annum rate equal to a reasonable estimate of Black Hills' weighted average cost of capital ("WACC") based on its current capital structure, weighted average cost of long-term debt, and a return on equity at a rate which Black Hills intends to propose in its upcoming rate review proceeding.<sup>2</sup> Black Hills proposes to true-up the return on equity to match the authorized return on equity as determined by the Board at the conclusion of the upcoming rate review proceeding. Black Hills proposes to perform this true-up in the May 1, 2022 reconciliation filing. Confidential Exhibit 2 is provided in electronic format and includes the 2021 Polar Vortex carrying costs and the calculation of the preliminary recovery amount.

The carrying costs are appropriate to facilitate Black Hills' 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 for general corporate purposes.

## **VI. CONCLUSION**

Wherefore, in consideration of the responses provided above, Black Hills respectfully requests that the Board approve Black Hills' proposed February 2021 Polar Vortex Recovery Plan as supported herein. The Recovery Plan is designed to mitigate the impact to customers related to Black Hills' recovery of the extraordinary February 2021 Polar Vortex gas supply costs discussed herein.

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<sup>2</sup> Black Hills anticipates on filing a general rate review on or near June 1, 2021.

Dated this 15<sup>th</sup> Day of April 2021.

Respectfully Submitted,

**BLACK HILLS ENERGY**

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