COMES NOW, Black Hills/Iowa Gas Utility Company, LLC d/b/a Black Hills Energy (“Black Hills Energy” or “Company”) and submits the following comments in response to the “Policy Charrette #1 Subsequent Filings & Policy Charrette #2 Information” issued by the Iowa Utilities Board (“Board”) in this docket on September 6, 2023.

INTRODUCTION

House file 617 of the Ninetieth General Assembly of 2023 (“HF 617”) was signed into law by Governor Reynolds on June 1, 2023. HF 617 became effective July 1, 2023, and directs the Board to “initiate and coordinate an independent review of current Iowa Code provisions and ratemaking procedures.” The review must “take into account the policy objectives of ensuring safe, adequate, reliable, and affordable utility services provided at rates that are nondiscriminatory, just, reasonable, and based on the utility’s cost of providing services to its customers within the state” (the “Policy Objectives”).

On August 30-31, 2023, the Board held Policy Charrette No. 1. Black Hills Energy was an active participant at Policy Charrette No. 1 along with a multitude of other stakeholders from various industries and organizations. Black Hills Energy is appreciative of the respectful and constructive discussions among the stakeholders during Policy Charrette No. 1. On September 6, 2023, the Board filed Policy Charrette #1 Subsequent Filings & Policy Charrette #2 Information. Within that filing, the Board indicated that London Economics International (“LEI”) requested that in addition to whatever other comments a party may have, participants consider offering feedback
to the General Ratemaking Prompt 1 and Prompt 2. Black Hills Energy’s comments below provide a general response to key issues that were raised during Policy Charrette No. 1, and do not address every issue or comment that was raised during Policy Charrette No. 1. Black Hills Energy’s silence on a particular topic should not be construed as consent to any policy or procedure and Black Hills Energy reserves the right to address or respond to any current or future topics throughout this proceeding.

COMMENTS ON GENERAL RATEMAKING PROMPTS 1 AND 2

Definitions of Policy Objectives – General Ratemaking Prompt 1
   a. How should stability be reviewed as an economic concept in addition to being a technical concept?
   b. Are there any metrics to consider for affordability when applying to non-residential customers?
   c. How should efficiency be viewed as a measure to drive rates towards costs efficiency while incentivizing utilities to seek out operational efficiencies?
   d. Provide any additional comments on the definitions of the terms identified in the policy objectives.

Black Hills Energy’s Response:

Black Hills Energy does not have any substantive comments on the items identified in Prompt 1 at this time. Black Hills Energy will continue to monitor comments on these issues and will provide additional feedback or comments, as needed, in future policy charrettes.

Advance Ratemaking Mechanisms (“ARM”) – General Ratemaking Prompt 2
   a. Multiple stakeholders noted that the goal or intent of the advance ratemaking statute has been achieved and may no longer be necessary. Does the view suggest: i. Iowa no longer requires development of new generation assets and ARM can be removed, ii. New generation assets will be developed without ARM and therefore is not needed, or iii. ARM needs to be revised for continued development of generation assets.
Black Hills Energy’s Response:

Black Hills Energy does not have any substantive comments as it relates to ARM and the development of new electric generation assets. However, one of the items raised during Policy Charette No. 1 related to the expanded use of ARM for natural gas and water utilities in Iowa. Black Hills Energy supports such expansion. For example, Black Hills Energy believes expanding ARM access to include other Alternate Energy Production (“AEP”) facilities and accompanying distribution assets would greatly benefit Iowa. Black Hills Energy has seen increasing demand from renewable natural gas producers and agricultural partners to develop facilities and infrastructure to promote biogas development and usage in Iowa. Expansion of ARM will provide natural gas utilities with another tool to help with the development of these projects and to promote renewable energy production in Iowa.

GENERAL POST-POLICY CHARRETTE NO. 1 COMMENTS OF BLACK HILLS ENERGY

Expanded Use of Capital Integrity and Reliability Trackers

Black Hills Energy emphasized the need for expansion of capital trackers for natural gas utilities in both its pre-filed comments and in oral comments presented at Policy Charrette No. 1. A few participants expressed opposition to the expansion of capital trackers in Iowa. Black Hills Energy reiterates that expanding capital trackers that promote safety and integrity investments in Iowa is a crucial step towards meeting the General Assembly’s policy objectives of providing safe, adequate, and reliable service. Capital trackers provide a transparent and efficient mechanism for utilities to recover the costs associated with upgrading and maintaining their systems to meet the highest safety standards. One of the key benefits of such trackers is that they encourage utilities to prioritize safety and integrity, as these investments directly impact the utility’s bottom line because the investments do not generate new revenue. By incentivizing responsible infrastructure upgrades, the General Assembly and Board can significantly reduce the risks
associated with potential accidents or outages, ultimately benefiting both utilities and their customers.

For the Board, capital trackers offer a streamlined approach to overseeing utility investments. They provide a clear framework for evaluating the necessity and prudence of safety-related expenditures, ensuring that resources are allocated where they are needed most. The Board can scrutinize these investments to guarantee they align with long-term infrastructure improvement goals and comply with state and federal safety regulations. This oversight not only enhances the safety of utility operations, but also ensures that investments are being made in a prudent manner.

For customers, capital trackers help prevent sudden rate hikes (rate shock) by allowing utilities to plan and recover costs incrementally over time. Moreover, the improved safety and integrity of the utility infrastructure translates into fewer service interruptions and a reduced risk of accidents, contributing to the overall safety and satisfaction of Iowa’s residents.

Expanding capital trackers that promote safety and integrity investments in Iowa is a prudent decision that benefits utilities, the Board, and customers alike. Capital trackers incentivize responsible infrastructure upgrades, accelerate improvements, enhance regulatory oversight, and lead to more stable utility costs and improved service reliability. Prioritizing safety and integrity investments through capital trackers is a proactive approach that ensures the long-term sustainability and security of Iowa’s natural gas infrastructure.

**Integrated Resource Plan (“IRP”)**

One of the items raised during Policy Charrette No. 1 was a recommendation for an IRP to evaluate alternative resources and the role that energy efficiency and demand response plays within relation to electric resource planning. The recommendation to require an IRP was mostly focused on electric utilities, but a few participants suggested implementing an IRP for natural gas and water utilities in addition to electric utilities. Iowa statute and Board rules do not currently
require the use of an IRP and the Company notes several concerns for the implementation of a stand-alone IRP for natural gas utilities.

1. IRP’s can be time-consuming because it requires extensive data collection, analysis, and coordination among various stakeholders. It involves evaluating and forecasting resource needs, such as equipment, personnel, and finances, which can be a lengthy and intricate procedure.

2. IRP’s can be financially burdensome due to the complexity of the proceedings. The process incurs costs in terms of personnel, resources, and infrastructure.

3. Inaccuracy can emerge post-implementation and an IRP may not hold true in a rapidly changing environment. Unexpected events, market shifts, or technological advancements can quickly render IRP’s outdated and inaccurate, necessitating revisions and further expenditures.

While the Company notes the above concerns related to a stand-alone IRP proceeding, the Company understands the desire of regulators to understand future investment needs of utilities. For this reason, Black Hills Energy continues to believe that an expanded capital tracker process where the utility receives pre-approval for upcoming capital expenditures provides the best format for regulators and customers to provide feedback on future planned investments. Alternatively, a Multi-Year Rate Plan, as noted below, provides an alternative method to understand a utility’s planned investments without the need of a separate, stand-alone IRP proceeding.

While Black Hills Energy does not provide electric service in Iowa it might be instructive for the Board to understand the history of IRPs and ARM. ARM was instituted by the Legislature in 2001, through House File 577 after the California energy crisis resulting from lack of resources to meet demand. While not desiring to go as far as requiring an IRP or deregulating the energy sector, Iowa chose to go the path of incenting generation development through the ARM. As a result of the ARM, all generation built by regulated utilities since passage, has been done through
use of ARM. The ARM has served very well as a proxy for an IRP as it includes many of the requirements and benefits of an IRP without the administrative burden. The ARM requires a significant amount of similar work including demonstration of need, analysis of alternatives, and evaluation of customer impacts which are only required at the time new generation is built thus reducing administrative burden and costs to customers. Utilities already have an incentive to manage, maintain, and operate their system reliably through the obligation to serve. An IRP only serves as an additional and unnecessary burden on both utilities and the Board. The obligation to serve coupled with ARM provide the same benefits of an IRP.

**Multi Year Rate Plan (“MYRP”)**

Another key discussion item at Policy Charrette No. 1 was the exploration of Multi Year Rate Plans. Black Hills Energy is appreciative of the General Assembly and the Board for its willingness to explore the advantages and disadvantages of the MYRP. While Black Hills Energy does not have any specific experience in the use of a MYRP, the Company is supportive of further evaluation of the use of the MYRP for all utilities in Iowa.

A MYRP is a strategic ratemaking framework to set rates for services over an extended period, typically spanning several years. In practice, a MYRP functions by establishing a clear rate path or trajectory for the utility's service charges over a specified number of years, often ranging from two to five years. This rate path is developed through extensive analysis, considering factors like expected operational costs, infrastructure investments, regulatory requirements, and revenue requirements. Once established, the rate plan provides a structured and predictable framework for how rates will change over time, offering greater financial predictability and promoting investments in infrastructure, technology, and service improvements.

A well-crafted MYRP can provide financial stability and a clearer path for long-term planning, allowing utilities to allocate resources efficiently and to make informed decisions about infrastructure upgrades and maintenance. Customers benefit from rate stability and transparency,
as they can better anticipate their utility bills over the multi-year period. Black Hills Energy encourages the General Assembly and Board to continue to explore the use of MYRP’s in Iowa.

A MYRP also serves the same function an IRP would serve in that it provides insight to the Board as to the planning and anticipated operation of the utility.

**CONCLUSION**

**WHEREFORE**, Black Hills Energy respectfully requests that the Board give due consideration to these comments. Black Hills Energy looks forward to further discussion with the Board and interested parties with respect to this matter.

Dated this 8th day of September, 2023.

Respectfully submitted,

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