PUBLIC VERSION

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Investigation into Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy, Regarding the February 2021 Winter Weather Events as Contemplated by Docket No. 21-GIMX-303-MIS	))))))	**Docket No. 21-BHCG-334-GIG**

DIRECT TESTIMONY OF KENT J. KOPETZKY

ON BEHALF OF

BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC, d/b/a BLACK HILLS ENERGY

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name Kent J. Kopetzky. My business address is 2287 College Road, Council Bluffs, IA 51503.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Black Hills Service Company, LLC ("BHSC"), a wholly owned subsidiary of Black Hills Corporation ("BHC"). I am a Senior Manager, Gas Supply Services.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy ("Black Hills" or "the Company").

Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. As the Senior Manager, Gas Supply Services for Black Hills, my current responsibilities include leading the scheduling and forecasting functions, developing gas supply plans, and negotiating physical gas supply purchases for Black Hills' natural gas customers in Nebraska, Iowa and a portion of Kansas.

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. My education, employment history, and professional experience is provided in Direct Exhibit KJK-1.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS CORPORATION COMMISSION ("COMMISSION" OR "KCC")?

A. No.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes, I am sponsoring the following Direct Exhibits:

Direct Exhibit KJK-1	Educational and Professional Background
Direct Exhibit KJK-2	Staff Report on Gas Purchase Plan
Direct Exhibit KJK-3	Executive Order 21-03
Direct Exhibit KJK-4	State of Disaster Emergency Declaration
Direct Exhibit KJK-5	Commission's Emergency Order

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my Direct Testimony is to support Black Hills' proposal in this filing to recover the extraordinary natural gas commodity costs incurred as a result of the extreme weather and natural gas market event that took place across the central portion of the country during the February 2021 Winter Weather Event ("February Event"). As the Senior Manager of Gas Supply, I specifically support Black Hills' request by providing information on how the Company plans its natural gas supply purchases and how Black Hills implemented this plan, consistent with industry best practices, to purchase gas supplies to ensure reliable service for our natural gas customers during the extreme market and weather conditions of the February Event.

II. GAS PURCHASE PLAN

Q. WHAT GAS SUPPLY SOURCES ARE AVAILABLE TO BLACK HILLS TO SERVE ITS CUSTOMERS?

A. The supply sources available to Black Hills are physical gas purchases and storage.

Q. WHICH PIPELINES DOES BLACK HILLS CONTRACT FOR TRANSPORTATION CAPACITY TO SERVE ITS KANSAS CUSTOMERS?

A. Gas is transported on the following interstate/intrastate pipelines, gathering systems or distribution systems for delivery to end-users in Kansas:

- Southern Star Central Gas Pipeline, Inc. (SSCGP)
- Panhandle Eastern Pipe Line Company, LP (PEPL)
- Tallgrass Interstate Gas Transmission, LLC (TIGT)
- Northern Natural Gas Company (NNG)
- Enable Gas Transmission, LLC (EGT)
- Natural Gas Pipeline of America LLC (NGPL)
- ONEOK Field Services
- Kansas Gas Service Company
- WTG Hugoton, L.P. (WTG)

Q. WHICH PIPELINES IS STORAGE SERVICE OFFERED AND CONTRACTED BY BLACK HILLS TO SERVE ITS CUSTOMERS?

A. Storage service is offered and contracted by Black Hills on the following pipelines:

- Northern Natural Gas Company;
- Panhandle Eastern Pipe Line Company, LP;
- Southern Star Central Gas Pipeline, Inc.;
- Tallgrass Interstate Gas Transmission, LLC; and
- Enable Gas Transmission, LLC.

Q. HOW DOES BLACK HILLS PLAN ITS GAS SUPPLY PORTFOLIO EACH YEAR?

A. Each year, the Company develops a Gas Purchase Plan ("GPP") with three primary goals for its gas supply practices: 1) provide reasonably priced natural gas, 2) provide a high level of reliability, and 3) mitigate price volatility. Black Hills files its GPP with the Commission on or shortly after May 1 each year. The annual GPP includes the forecasted quantity of gas to be purchased over the ensuing gas purchase year, and includes the utility's portfolio management plan, including hedging. Black Hills filed its GPP on May

6, 2020 for planned gas purchases from May 1, 2020 through April 30, 2021, in Docket No. 02-UTCG-371-GPR. The GPP was then reviewed by and discussed with KCC Staff and Citizens Utility Ratepayer Board ("CURB"). On July 27, 2020 KCC Staff filed a report in Docket No. 02-UTCG-371-GPR which concluded:

> Based on its Gas Purchase Plan and the information provided during the meeting, Staff believes that the Company's gas purchasing practices are reasonable and that Black Hills is able to supply sufficient gas for the 2020-2021 heating season (November 2020 through March 2021). In addition, Staff believes Black Hills' proposed Hedge Plan is reasonable.

Staff's report is attached as Direct Exhibit KJK-2. Black Hills recently completed and filed its 2021-2022 GPP on May 7, 2021, in the same docket.

Q. DID BLACK HILLS ACQUIRE AND UTILIZE GAS SUPPLIES IN ACCORDANCE WITH ITS GPP FOR THE 2020-2021 HEATING SEASON?

A. Yes.

Q. WHAT ANALYSIS DOES BLACK HILLS UNDERTAKE EACH YEAR TO DEVELOP ITS GPP?

A. As explained in the GPP, Black Hills conducts a regression analysis to determine the correlation between historical customer demand and historical weather. This correlation produces an equation that can then be used to forecast customer demand based on forecasted weather. To forecast the weather for the GPP, Black Hills uses the National Oceanic Atmospheric Administration ("NOAA") 30-year monthly average. The 30-year monthly average forecast establishes the normal weather expected to be observed each month. Black Hills can then use the correlation equation described above to forecast monthly customer demand.

Black Hills then determines the estimated total monthly gas supply requirements by incorporating the volumetric effect of anticipated storage injections and withdrawals into the monthly customer demand.

Q. CAN YOU DESCRIBE THE SOURCES OF GAS SUPPLY THAT ARE AVAILABLE TO BLACK HILLS TO SERVE ITS CUSTOMERS?

A. The physical gas supplies that are available to Black Hills can be described as term supply purchases, monthly supply purchases, storage withdrawals and daily supply purchases. Each is described in the following sections.

A. TERM AND MONTHLY SUPPLY PURCHASES

Q. WHAT ARE TERM PURCHASES?

A. Term purchases may also be referred to as baseload purchases and are purchases from counterparties for a term of greater than one month. The volume is the same each day of the month and these volumes are priced at Inside FERC First-of-Month Index prices, which do not fluctuate throughout the month. For a baseload contract longer than a month, the volume is the same each day of the month but may vary from month to month.

Q. WHAT ARE MONTHLY PURCHASES?

A. Monthly purchases may also be referred to as baseload purchases and are purchases from counterparties for a calendar month. As with Term purchases, the volume is the same each day of the month and these volumes are priced at Inside FERC First-of-Month Index prices, which do not fluctuate throughout the month.

Q. HOW DOES BLACK HILLS DETERMINE THE AMOUNT OF GAS THAT IT WILL ACQUIRE THROUGH BASELOAD CONTRACTS EACH YEAR?

A. Black Hills first calculates the total normal monthly requirement for each month using a three-year regressed average normal requirement. From this total monthly requirement, Black Hills then factors in storage injection and/or withdrawal volumes to determine an estimated total monthly baseload purchase requirement, of which Black Hills may procure a portion with Term baseload supply purchases.

Based on this analysis, Black Hills issues a Request for Proposal ("RFP") to solicit offers for Term supply contracts and executes these contracts through a competitive bidding process.

In addition, prior to the start of a month, Gas Supply Services evaluates the month ahead weather forecasts, current storage inventory and imbalance levels relative to planned targets, market conditions, and potential upstream pipeline maintenance or constraints, to determine actual Monthly baseload supply purchases for that particular month.

Q. WHY DOESN'T BLACK HILLS RELY SOLELY ON BASELOAD CONTRACTS FOR ITS GAS SUPPLY?

A. Procuring gas supplies through baseload contracts would not provide Black Hills with the flexibility to match its gas supply purchases to each day's forecasted load. Under a baseload contract, Black Hills is required to purchase the same volume of gas each day of the month. To procure sufficient gas for each day of the month, Black Hills would have to set the monthly baseload contract to cover the maximum daily forecasted load for that month. This means that Black Hills would have excess gas supplies each day that actual usage is below the forecasted maximum daily load for the month. To provide the necessary

flexibility and to better match gas supplies to load, Black Hills relies on storage and daily purchases to supplement its baseload contracts.

B. STORAGE AND HEDGING

Q. WHAT TYPES OF GAS STORAGE OPTIONS ARE AVAILABLE TO BLACK HILLS?

A. Black Hills does not own any storage facilities in Kansas, but rather Black Hills contracts for storage service with upstream pipelines where storage services are available. Black Hills has firm and no-notice[1] storage contracts.

Generally speaking, Black Hills injects gas into storage during the summer months (April – October), and it withdraws gas from storage during the winter months (November – March). Storage provides both price and operational benefits. The price benefit of storage is Black Hills can inject gas in the summer months when natural gas prices are typically lower, and it can withdraw gas at the weighted average cost of gas ("WACOG") during the winter months, when daily spot market prices are generally higher. As a result, the use of storage acts as a hedging tool that can mitigate Black Hills' exposure to higher natural gas prices during the winter months. Additionally, storage provides flexibility to withdraw non-ratably and up to contracted withdrawal rights to address load volatility during cold weather events.

[1] Within firm service, many pipelines and storage facilities provide "no-notice" service. No-notice service means that Black Hills does not have to notify pipelines that that we intend to use storage. It provides automatic balancing between our customers' load requirements and Black Hills' physical flowing supply such that any additional supply is withdrawn from or injected into our storage inventory.

Q. HOW DOES BLACK HILLS DETERMINE THE AMOUNT OF GAS THAT IT WILL ACQUIRE FOR STORAGE EACH YEAR?

A. Black Hills targets an inventory increase each month of the injection period, which generally ranges from April – October with the goal of approximately **____** of its maximum storage quantity ("MSQ") in storage by November 1 of each year. Having available injection capacity in November allows Black Hills to address warmer than normal weather situations and mitigates the need to sell back baseload supply.

Q. HOW DOES THE COMPANY DETERMINE THE AMOUNT OF GAS THAT WILL BE TAKEN OUT OF STORAGE EACH DAY?

A. Black Hills determines its storage withdrawals based on factors that include: (1) actual current inventory compared to the ending month inventory target as included in the GPP; (2) the daily load forecast as determined by Black Hills' load forecast modelling; (3) the available maximum daily withdrawal quantity ("MDWQ") as defined in the storage service providers' approved tariff and/or Black Hills' contract limits; (4) current pipeline operating conditions; and (5) current daily spot market prices. The Company also reserves a portion of its storage withdrawal capability each day to manage weather and load forecast uncertainty, unforeseen supply curtailments, or other system contingencies.

Q. ARE THERE LIMITS ON THE AMOUNT OF GAS THAT CAN BE WITHDRAWN FROM STORAGE ON A PARTICULAR DAY?

A. Yes. Each storage provider has a defined MDWQ for each day. In addition, each pipeline has the ability to charge penalties in the event that a shipper withdraws more gas from storage than the MDWQ.

Q. IN ADDITION TO STORAGE, DOES THE COMPANY'S GPP INCLUDE ANY OTHER HEDGING TOOLS?

A. Yes. In addition to storage, the Company also uses monthly call option purchases as a financial hedging tool for a portion of its forecasted normal winter gas supply requirements. As noted in Company's GPP, approximately **___** of forecasted normal requirements are hedged by purchasing call options at a fixed strike price, and within a budgeted premium price. Black Hills utilizes a dollar-cost averaging approach to purchase the call options **_____**.

C. DAILY GAS PURCHASES

Q. DESCRIBE THE TYPES OF DAILY GAS PURCHASES MADE BY BLACK HILLS.

A. Daily gas purchases are made in two ways: (1) pre-arranged firm peaking contracts and (2) daily spot market purchases.

Firm peaking contracts are contracts with upstream suppliers in which Black Hills reserves a volume of gas that Black Hills has the option to call upon. Firm peaking contracts are typically entered into in the summer months during the RFP process.

Daily spot market purchases are gas purchases generally contracted the day before, or day of, gas delivery. Daily spot market purchases are typically made when firm baseload, planned storage and firm peaking contracts are not enough to cover the forecasted load.

Q. HOW DOES THE COMPANY DETERMINE WHETHER DAILY GAS PURCHASES ARE NEEDED FOR A PARTICULAR DAY AND WHAT TYPES OF INFORMATION DOES BLACK HILLS RELY ON TO DETERMINE ITS DAILY GAS PURCHASE VOLUMES?

A. Black Hills makes daily gas purchases when its forecasted demand (utilizing a combination of temperature and weather conditions) is anticipated to exceed its existing gas supplies from baseload and storage. Other factors are also considered such as: upstream pipeline operating conditions, available storage inventory, storage MDWQ and pipeline imbalances.

Typically, analysis is conducted every business day to determine the necessary daily gas purchases. In extreme cold weather or other unusual situations, this activity is completed every day to ensure that the most current load information is available to make purchasing decisions.

Q. WHAT IS THE SOURCE OF BLACK HILLS' WEATHER FORECAST DATA THAT IS USED TO DETERMINE ITS DAILY CUSTOMER LOAD?

A. To forecast its customer load, Black Hills uses a third-party contractor for its weather and temperature forecasts. Black Hills relies on weather forecast data from various weather stations within Black Hills' service territories. Weather forecast data is provided by the third-party contractor twice a day at around 6 a.m. and 3 p.m. Central Time ("CT").

Q. HOW IS THE WEATHER FORECAST INFORMATION USED TO DEVELOP A CUSTOMER LOAD FORECAST?

A. The weather data is processed through Black Hills' load forecast models. The models use third-party weather forecast inputs, including average daily temperature and wind speed

forecasts, to develop Adjusted Heating Degree Days ("HDD")[2] for the upcoming dates. The Black Hills' models use the HDD to produce customer load forecasts.

Q. WHAT IS THE INDUSTRY STANDARD FOR WHEN DAILY GAS PURCHASES ARE TRANSACTED?

A. Daily gas purchases are purchases that are made for delivery of the gas on the next calendar gas day. For example, gas purchased on Monday would be delivered on Tuesday. Gas purchased on Friday, however, is for delivery on Saturday, Sunday, and Monday because of the weekend. In the case of four-day holiday weekends, like the Presidents' Day holiday weekend in February 2021, gas purchased on Friday was for delivery Saturday (February 13, 2021) through Tuesday (February 16, 2021).

Q. HOW ARE DAILY GAS PURCHASES PRICED?

A. Gas purchased pursuant to firm peaking contracts are priced at a daily index price, if and when the firm peaking volumes are called upon, plus an agreed upon premium amount. The daily index price is set at the Platts Gas Daily midpoint index price for the applicable delivery location that settles at the end of the trading day.

Daily spot market purchases are priced either at a "Daily Index + Premium/Discount" price or fixed price. A Daily Index + Premium/Discount price is the daily index price plus an agreed upon premium or discount of that daily index price. Typically, Daily Index + Premium/Discount priced gas is the first type of daily spot market gas that is offered for sale each day.

[2] HDD is defined by the Energy Information Administration as: "A degree day compares the mean (the average of the high and low) outdoor temperatures recorded for a location to a standard temperature, usually 65° Fahrenheit in the United States." The Adjusted HDD also accounts for wind chill and provides a more accurate forecast of the weather customers will experience.

A fixed price is a set price that is agreed to between the supplier and purchaser when the transaction is made. All fixed priced transactions that are reported to Platts are used to calculate the weighted average midpoint index price for each delivery location. Fixed priced transactions could be above or below the midpoint index price that settles at the end of the day.

Q. HOW DOES BLACK HILLS GATHER DATA ABOUT DAILY MARKET PRICES?

A. Black Hills has access to the InterContinental Exchange ("ICE") trading platform to gather real-time access to gas trading activity and pricing information, in addition to direct outreach to its suppliers.

Q. HOW DOES BLACK HILLS MAKE ITS DAILY MARKET GAS PURCHASES?

A. Black Hills uses a communication tool on ICE to communicate and complete transactions with counter parties. This tool is widely used in the natural gas trading industry. Black Hills uses the North American Energy Standards Board's contract and transaction confirmation process for all gas purchases.

Q. WHAT TIME OF DAY DOES THE COMPANY DECIDE WHETHER DAILY GAS PURCHASES ARE REQUIRED?

A. The determination of whether daily gas purchases are required is generally completed the morning prior to the gas flow day. If gas purchases are deemed necessary, the Company will typically begin to execute these purchases starting as early as **____** Central Time (CT). Black Hills executes these purchases early in the day to ensure that the Company is able to procure sufficient gas supplies to meet forecasted customer loads, especially during times of high demand and extreme cold.

Q. **HOW DOES THE COMPANY DECIDE WHETHER TO USE ITS FIRM PEAKING CONTRACTS OR TO BUY GAS IN THE DAILY SPOT MARKET?**

A. To determine whether to call on a firm peaking arrangement or buy gas on the daily spot market, the Company evaluates supply liquidity in the daily spot market. As stated, firm peaking arrangement counterparties must stand ready to supply gas volumes up to a pre-determined level. If gas is constrained or unavailable in the daily spot market, firm peaking arrangements provide a reliable source of supply with a predetermined premium. During times of constrained supply, daily spot market purchase premiums can increase in addition to the underlying price index.

III. THE FEBRUARY EVENT

Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE NATURAL GAS MARKET CONDITIONS LEADING UP TO AND DURING THE FEBRUARY EVENT.

A. Beginning on February 12, 2021, extremely cold temperatures engulfed much of the country including all of Black Hills Energy's natural gas service territories.

These widespread extreme cold temperatures led to increased demand for natural gas for home heating and electric generation across much of the central United States. As an example, Black Hills experienced a new peak demand day at Garden City, Kansas on February 14, 2021, of **_____** dekatherms ("Dth"), as compared to the previous peak prior to the February Event of **_____** Dth. At the same time that demand was increasing, the cold led to well freeze-offs and natural gas processing plant outages in portions of the country that caused supply disruptions leading to reduced supply to meet the increased demand.

This imbalance between supply and demand caused daily spot market gas prices to rise to unprecedented levels. While there are multiple price indices related to the Company's daily spot market purchases, an example to illustrate the natural gas daily spot market price volatility is the Southern Star Central Gas Pipeline ("SSC") daily midpoint index ("daily spot price" or "daily index price"). Of note, the midpoint is representative of a broader price trading range for any given day, so volatility was even greater than the following representation. For the days of February 1 through February 7, 2021, the SSC daily index prices ranged from $2.545 - $3.56 per Dth. For gas delivered during the period of February 8th through 10th, the SSC daily index prices ranged from $3.56 - $4.03. On Thursday, February 11, 2021, the SSC daily index price increased to $9.62 per Dth, and on Friday, February 12, 2021, the daily index price was $44.78 per Dth. For gas delivered during the Presidents' Day holiday weekend, which included gas delivery on Saturday, February 13 through Tuesday, February 16, the SSC daily spot market gas price spiked, resulting in a daily index price settlement of $329.595 per Dth. The SSC daily spot market prices increased even more during trading on Tuesday, February 16th for gas supply delivery on Wednesday, February 17th, reaching historical levels and settling at a SSC daily index price of $622.785 per Dth. The SSC daily index price retracted significantly for deliveries on February 18th but remained high at a daily index price of $44.53 per Dth, with a further decline to $7.945 per Dth for gas deliveries on February 19th. Gas prices continued to decline after this time, with the SSC daily index prices ranging from $4.385 per Dth for deliveries on February 20th to $2.465 for deliveries on February 28th.

The magnitude of this spike in natural gas prices was unprecedented. For comparison, during the 2014 Polar Vortex event, daily natural gas prices rose to a high

daily index price of $31.265 per Dth on February 6, 2014 at the Southern Star Central Gas Pipeline price index location. The unusual nature of the February Event price spike is further demonstrated by Table KJK-1 below that provides the historical, maximum daily midpoint prices at the seven price indices utilized in February by Black Hills: (1) CIG, Rockies; (2) Enable Gas; (3) NGPL, Midcon; (4) Northern Natural Gas, demarcation; (5) Northern Natural Gas, Ventura; (6) Panhandle Eastern; and (7) Southern Star Central Gas Pipeline. The prices provided in the table are shown over the last 10 years (2011-2020) compared to the daily midpoint natural gas prices for the February Event.

Table KJK-1: Historical Maximum Daily Midpoint Price

	Natural Gas price index location						
	CIG, Rockies	Enable Gas	NGPL, Midcon	Northern Natural Gas, demarcation	Northern Natural Gas, Ventura	Panhandle Eastern	Southern Star Central Gas Pipeline
Feb 2021 Event period 2/7-2/19 (2021): Maximum mid price	$ 172.945	$ 428.640	$ 381.480	$ 231.670	$ 188.320	$ 224.560	$ 622.785
Date	2/13-2/16/2021	2/18/2021	2/17/2021	2/13-2/16/2021	2/17/2021	2/13-2/16/2021	2/17/2021
10+ yr period 1/1/2011-3/31/2021 (EXCLUDING 2/7-2/19/2021): Maximum mid price	$ 25.470	$ 22.680	$ 23.050	$ 34.950	$ 67.455	$ 32.855	$ 31.265
Date	2/6/2014	2/6/2014	2/6/2014	2/6/2014	12/29/2017	2/6/2014	2/6/2014

As a result of the unforeseen spike in natural gas prices during the February Event, Black Hills experienced a significant increase in cost for the daily spot market gas purchased from our gas suppliers. These purchases were necessary to maintain system reliability and keep services available to customers in severe, life-threatening weather conditions.

Q. WAS BLACK HILLS ABLE TO MAINTAIN RELIABLE NATURAL GAS SERVICE FOR ITS CUSTOMERS DURING THE FEBRUARY EVENT?

A. Yes. In spite of the volatility of the natural gas market conditions, Black Hills was able to procure sufficient natural gas supplies during the February Event to maintain reliable natural gas service for its customers.

Q. HOW DOES BLACK HILLS' GAS PURCHASING PROCESS RELATE TO THE FEBRUARY EVENT?

A. During the February Event, Black Hills relied on its established gas purchase process and its GPP to ensure that Black Hills had sufficient natural gas supplies to reliably and safely serve its customers during these extreme cold temperatures and volatile market conditions. The diversity of Black Hills' gas supplies, in particular the baseload and storage purchases made by Black Hills prior to this event, also provided protection against the volatile market conditions that were experienced.

Q. PLEASE PROVIDE AN OVERVIEW OF THE WEATHER FORECAST LEADING UP TO FEBRUARY EVENT.

A. Prior to the February Event, the weather forecast projected colder than normal temperatures for much of the central portion of the United States, including Kansas, for the Presidents' Day holiday weekend. On February 9, 2021, upstream pipeline operators started issuing operational restrictions for the Presidents' Day holiday weekend. Operational restrictions from upstream pipeline operators are a typical practice in advance of and during cold weather events. Pipelines want to ensure that their shippers have sufficient gas to meet the increased demand due to cold weather.

Q. CAN YOU PROVIDE AN EXAMPLE OF THE COMPANY'S WEATHER FORECASTS IN ADVANCE OF THE FEBRUARY EVENT?

A. Yes. Figure KJK-1 below shows weather forecasting for Garden City, Kansas provided as the 6-day ahead adjusted HDD forecast, day ahead adjusted HDD forecast, and observed adjusted HDD for the month of February 2021.

Figure KJK-1: Garden City Weather Forecasts Comparison – Adjusted HDD

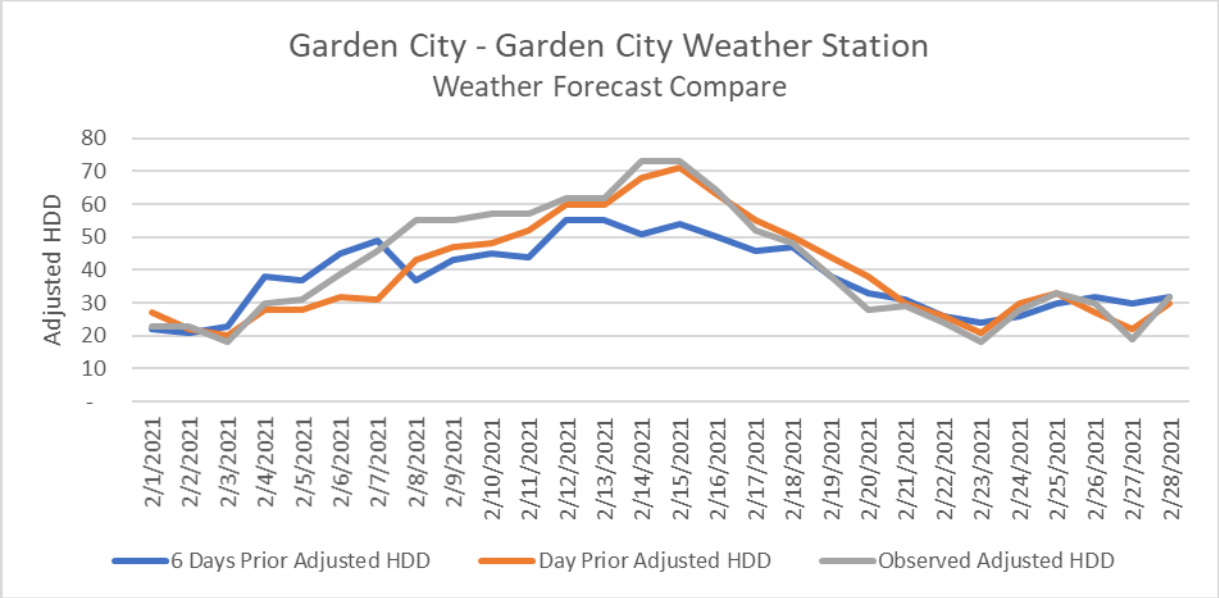

Figure KJK-1 demonstrates that the closer the weather forecast is to the observed weather day, the more accurate it is, while also highlighting the weather volatility that exists even with day-out forecasts as compared to actual.

Q. CAN YOU PROVIDE AN EXAMPLE OF A BLACK HILLS LOAD FORECAST IN ADVANCE OF THE FEBRUARY EVENT?

A. Figure KJK-2 below shows Garden City, Kansas 6-day ahead load forecast, day ahead load forecast, and observed load for the month of February 2021 at the Garden City, Kansas weather station.

Figure KJK-2: Load Forecast Comparison

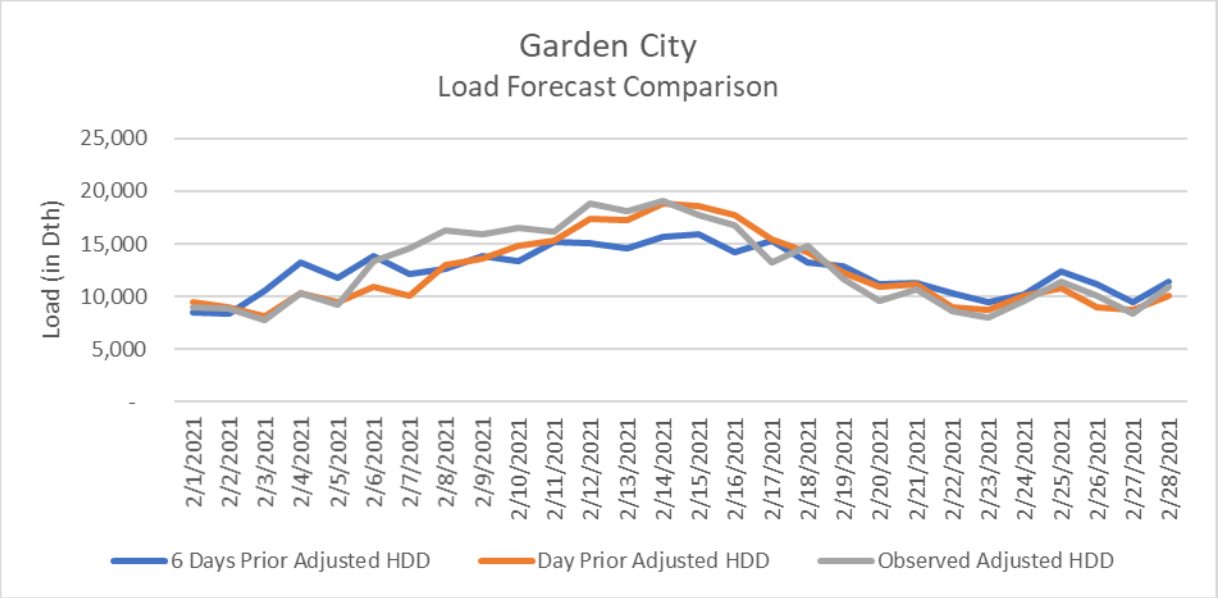

Figure KJK-2 demonstrates that the closer the load forecast is conducted to the observed day, the more accurate it is. This is why, during the February Event, Black Hills reviewed weather and load forecasts regularly. Also represented here is the volumetric risk associated with attempting to buy gas too far into the future from the delivery day.

Q. WHEN DID DAILY GAS PRICES BEGIN TO INCREASE PRIOR TO THE FEBRUARY EVENT?

A. As shown in Table KJK-2 below, daily prices did increase gradually ahead of the February Event, but this type of increase in daily prices is not atypical at the beginning of cold weather events due to the expected increase in demand for natural gas for heating.

Table KJK-2: February Daily Natural Gas Mid-Prices

Date	CIG, Rockies	Enable Gas	NGPL, Midcon	Northern Natural Gas, demarcation	Northern Natural Gas, Ventura	Panhandle Eastern	Southern Star Central Gas Pipeline
2/1/2021	$ 2.565	$ 2.570	$ 2.555	$ 2.615	$ 2.600	$ 2.550	$ 2.545
2/2/2021	$ 2.660	$ 2.695	$ 2.670	$ 2.735	$ 2.715	$ 2.665	$ 2.680
2/3/2021	$ 2.805	$ 2.860	$ 2.835	$ 2.905	$ 2.900	$ 2.825	$ 2.820
2/4/2021	$ 2.760	$ 2.765	$ 2.775	$ 2.860	$ 2.865	$ 2.760	$ 2.790
2/5/2021	$ 2.835	$ 2.815	$ 2.870	$ 3.015	$ 3.215	$ 2.905	$ 2.850
2/6/2021	$ 3.490	$ 3.430	$ 3.335	$ 3.780	$ 3.845	$ 3.515	$ 3.560
2/7/2021	$ 3.490	$ 3.430	$ 3.335	$ 3.780	$ 3.845	$ 3.515	$ 3.560
2/8/2021	$ 3.490	$ 3.430	$ 3.335	$ 3.780	$ 3.845	$ 3.515	$ 3.560
2/9/2021	$ 3.395	$ 3.355	$ 3.330	$ 3.715	$ 4.200	$ 3.525	$ 3.655
2/10/2021	$ 3.460	$ 3.500	$ 3.345	$ 3.855	$ 4.055	$ 3.675	$ 4.030
2/11/2021	$ 4.825	$ 6.105	$ 4.920	$ 6.605	$ 6.905	$ 6.310	$ 9.620
2/12/2021	$ 13.285	$ 34.385	$ 11.830	$ 15.680	$ 15.415	$ 14.545	$ 44.780
2/13/2021	$ 172.945	$ 375.810	$ 206.110	$ 231.670	$ 154.905	$ 224.560	$ 329.595
2/14/2021	$ 172.945	$ 375.810	$ 206.110	$ 231.670	$ 154.905	$ 224.560	$ 329.595
2/15/2021	$ 172.945	$ 375.810	$ 206.110	$ 231.670	$ 154.905	$ 224.560	$ 329.595
2/16/2021	$ 172.945	$ 375.810	$ 206.110	$ 231.670	$ 154.905	$ 224.560	$ 329.595
2/17/2021	$ 78.200	$ 300.000	$ 381.480	$ 133.635	$ 188.320	$ 129.385	$ 622.785
2/18/2021	$ 19.525	$ 428.640	$ 22.595	$ 26.945	$ 19.460	$ 23.390	$ 44.530
2/19/2021	$ 5.785	$ 34.450	$ 6.345	$ 6.050	$ 5.980	$ 6.265	$ 7.945
2/20/2021	$ 3.655	$ 4.550	$ 4.045	$ 3.990	$ 3.735	$ 4.010	$ 4.385
2/21/2021	$ 3.655	$ 4.550	$ 4.045	$ 3.990	$ 3.735	$ 4.010	$ 4.385
2/22/2021	$ 3.655	$ 4.550	$ 4.045	$ 3.990	$ 3.735	$ 4.010	$ 4.385
2/23/2021	$ 2.665	$ 2.695	$ 2.660	$ 2.660	$ 2.675	$ 2.590	$ 2.690
2/24/2021	$ 2.700	$ 2.650	$ 2.645	$ 2.695	$ 2.685	$ 2.645	$ 2.700
2/25/2021	$ 2.630	$ 2.530	$ 2.605	$ 2.630	$ 2.630	$ 2.540	$ 2.665
2/26/2021	$ 2.480	$ 2.360	$ 2.440	$ 2.465	$ 2.455	$ 2.340	$ 2.465
2/27/2021	$ 2.480	$ 2.360	$ 2.440	$ 2.465	$ 2.455	$ 2.340	$ 2.465
2/28/2021	$ 2.480	$ 2.360	$ 2.440	$ 2.465	$ 2.455	$ 2.340	$ 2.465

Q. WHAT ACTIONS DID BLACK HILLS TAKE IN ADVANCE OF THE FEBRUARY EVENT TO ENSURE THAT ITS CUSTOMERS HAD AN ADEQUATE SUPPLY OF GAS DURING THE FORECASTED COLD TEMPERATURES?

A. From a long-term gas supply perspective, as documented in our annual GPP filing, Black Hills prepares for extreme winter weather events in a multitude of ways, including but not limited to:

- Injecting gas into storage during the previous summer for withdrawal during the winter
- Updating annual and daily load forecast models based on regression analysis each year
- Design Day analysis to ensure adequate firm pipeline capacity for peak day coverage
- A diversified supply portfolio including term and monthly baseload purchases, and storage
- Financial hedges

Further, immediately prior to and during the February event, Black Hills prepared through the following actions:

- Monitoring weather forecasts
- Reviewing and monitoring load forecasts (the daily forecast process includes multiple days)
- Calling Operational Flow Orders in response to upstream pipeline conditions
- Initiating a curtailment of Large Volume and Small Volume Interruptible Sales customers
- Recalling interstate pipeline capacity as needed ahead of and throughout the cold weather event

- Purchasing incremental daily firm capacity on Northern Natural Gas on February 11 for gas days February 14 and February 15 based on near peak-day forecasts and pipeline conditions

Additionally, to address service reliability during the February event, our Operations teams took the following action:

- Enhanced monitoring of critical stations via SCADA
- Placing additional technicians on call
- Proactive conservation communication to customers
- Proactive communication to employees regarding personal protection, potential gas supply and system operational challenges.

Q. WHAT TYPES OF NATURAL GAS SUPPLIES WERE USED BY BLACK HILLS TO SERVE ITS CUSTOMERS DURING THE FEBRUARY EVENT?

A. Black Hills procured natural gas supplies consistent with its GPP and relied on a combination of baseload purchases, storage withdrawals, and daily gas purchases (which included firm peaking contracts) to serve its natural gas customers. These tools, in combination with hedging, are meant to provide supply reliability and price stability associated with normal consumption, with the goal of providing price stability to customers through the use of hedging and storage tools for approximately **_____** of forecasted normal requirements. To supplement these tools, Black Hills also purchases baseload supplies to provide additional price stability. Baseload purchases are priced at a First-of-Month index price, which for February 2021 ranged from $2.52 for Southern Star Central to $2.61 for Enable Gas, East. With the extreme cold experienced during the February Event, Black Hills had to supplement its natural gas supply portfolio with daily gas purchases to address the increased load requirements.

Q. WHEN DID BLACK HILLS PROCURE ITS BASELOAD AND PEAKING SUPPLY PACKAGES OF NATURAL GAS THAT WERE USED TO SERVE CUSTOMERS DURING THE FEBRUARY EVENT?

A. Black Hills executed Term baseload contracts and firm peaking contracts that were relied upon during the February Event following a competitive bidding process that occurred in the summer of 2020. In addition, Black Hills purchased Monthly baseload supply packages prior to the month of gas flow. Prior to February 2021, Black Hills purchased a total of **_____** per day of baseload supply and contracted for a volume up to **_____** of daily firm peaking purchases for February 2021.

Q. WERE WEATHER OR MARKET CONDITIONS SIMILAR TO THOSE THAT DEVELOPED DURING THE FEBRUARY WINTER EVENT INCLUDED IN BLACK HILLS WEATHER AND MARKET FORECASTING TOOLS AT THE TIME BLACK HILLS ENTERED INTO THESE GAS SUPPLY CONTRACTS?

A. No.

Q. WERE THERE COST SAVINGS THAT WERE ACHIEVED BY RELYING ON ITS BASELOAD SUPPLIES DURING THE FEBRUARY EVENT?

A. The Company's baseload supply purchases are fully utilized prior to increasing storage withdrawals greater than planned, calling on daily peaking supply volumes and/or purchasing supplemental daily spot market supply to meet increased load requirements. Baseload supply purchases mitigate the amount of gas that must be purchased in the daily spot market, and therefore provided inherent cost savings during the extreme market prices associated with the February Event. The Company's contracted baseload supply contracts for February were approximately **_____**.

Q. WHAT WERE BLACK HILLS' PLANNED GAS STORAGE WITHDRAWALS FOR FEBRUARY?

A. Black Hills' planned gas storage withdrawals during February are provided in Table KJK-3 below. Prior to the February Event, Black Hills planned for average daily withdrawals of approximately **_____** Dth, for a monthly withdrawal target of approximately ** ** Dth.

**_____

**

Q. WHAT WERE BLACK HILLS' ACTUAL GAS STORAGE WITHDRAWALS DURING THE FEBRUARY EVENT?

A. Black Hills planned its storage withdrawal to the maximum reasonable extent possible while also ensuring there were sufficient storage reserves in case of unforeseen supply or pipeline issues due to the cold weather. Table KJK-4 below provides the planned average daily storage withdrawal volumes for February and actual daily net storage withdrawals each day during the February Event.

**_____

**

Q. WHY DID BLACK HILLS WITHDRAW MORE GAS FROM STORAGE THAN INITIALLY PLANNED DURING THE FEBRUARY EVENT?

A. Black Hills withdrew more gas from storage than planned because actual observed customer loads were higher than forecasted, due to actual observed weather being colder than forecasted. As stated earlier, Black Hills' contracted storage capacity consists of both Firm nominated storage and Firm No-Notice storage. In addition to the firm nominated storage service, the No-Notice level of service provided an important balancing tool to help mitigate against potential pipeline penalty charges while also providing reliable supply in times of increased load. The flexibility of gas storage and prudent management of inventory allowed Black Hills to mitigate the impact of the high prices for daily spot market gas during the February Event.

Q. WHY DID BLACK HILLS ALSO MAKE DAILY GAS PURCHASES DURING THE FEBRUARY EVENT?

A. As stated earlier, daily gas purchases are required when load forecasts for customer usage are greater than baseload supply contract volumes and updated planned storage supply, and in conjunction with pipeline operation flow orders, as was the case during the February Event.

Q. WHEN DID BLACK HILLS HAVE INDICATIONS THAT DAILY GAS PRICES WERE GOING TO BE HISTORICALLY HIGH OVER THE PRESIDENTS' DAY HOLIDAY WEEKEND PERIOD?

A. Not until after these daily gas purchases were made. Around 8:30 a.m. on Friday, February 12, Black Hills observed elevated gas prices on ICE for gas purchased for delivery on Saturday, February 13. At this early time of the day, it was not known if these prices would continue rising, stabilize, or decrease by the end of the trading day.

Q. WHY DID BLACK HILLS PURCHASE ITS DAILY GAS EARLY IN THE MORNING ON FEBRUARY 12?

A. Given the forecasted cold weather and expected high demand for natural gas, Black Hills knew there would be increased competition for gas supply. In some areas, Black Hills has a limited number of suppliers. Black Hills had three choices: (1) Purchase the gas supply necessary to reliably and prudently serve the increased customer load, (2) Do not purchase the necessary gas supply and risk incurring pipeline penalties at price levels significantly greater than the daily midpoint index price levels for not complying with pipeline operational flow order conditions, and, (3) Do not purchase the necessary gas supply and

risk being curtailed by the pipeline for not complying with operational flow orders, impacting Company's ability to provide life-essential service to Black Hills' customers.

Q. PLEASE DESCRIBE THE BENEFITS OF SECURING FIRM PEAKING CONTRACTS.

A. Firm peaking contracts are executed in the summer months, through an RFP process. Firm peaking contracts allowed Black Hills to call on these suppliers to deliver a certain volume of gas (as designated by Black Hills and within contract parameters) during the February Event at Daily Index prices plus a pre-set premium. These firm peaking contracts provided a valuable gas supply source to Black Hills during the February Event when there was increased competition for gas.

Q. WHEN BLACK HILLS MADE ITS DAILY GAS PURCHASES ON THE MORNING OF FEBRUARY 12, DID BLACK HILLS ANTICIPATE THAT THE INDEX PRICES FOR DAILY GAS WOULD SETTLE WHERE THEY DID?

A. No. While prices were slowly increasing prior to the February Event, no one predicted that prices would reach historic levels. Table KJK-5 below shows daily index pricing for the month of February, and as previously described, the market price volatility associated with the February Event. The Event dates are highlighted in a subtle shade, while the darker highlighting identifies the sudden, surprising nature of this price spike.

Table KJK-5: Daily Natural Gas Mid-Prices during the February Event

Date	CIG, Rockies	Enable Gas	NGPL, Midcon	Northern Natural Gas, demarcation	Northern Natural Gas, Ventura	Panhandle Eastern	Southern Star Central Gas Pipeline
2/7/2021	$ 3.490	$ 3.430	$ 3.335	$ 3.780	$ 3.845	$ 3.515	$ 3.560
2/8/2021	$ 3.490	$ 3.430	$ 3.335	$ 3.780	$ 3.845	$ 3.515	$ 3.560
2/9/2021	$ 3.395	$ 3.355	$ 3.330	$ 3.715	$ 4.200	$ 3.525	$ 3.655
2/10/2021	$ 3.460	$ 3.500	$ 3.345	$ 3.855	$ 4.055	$ 3.675	$ 4.030
2/11/2021	$ 4.825	$ 6.105	$ 4.920	$ 6.605	$ 6.905	$ 6.310	$ 9.620
2/12/2021	$ 13.285	$ 34.385	$ 11.830	$ 15.680	$ 15.415	$ 14.545	$ 44.780
2/13/2021	$ 172.945	$ 375.810	$ 206.110	$ 231.670	$ 154.905	$ 224.560	$ 329.595
2/14/2021	$ 172.945	$ 375.810	$ 206.110	$ 231.670	$ 154.905	$ 224.560	$ 329.595
2/15/2021	$ 172.945	$ 375.810	$ 206.110	$ 231.670	$ 154.905	$ 224.560	$ 329.595
2/16/2021	$ 172.945	$ 375.810	$ 206.110	$ 231.670	$ 154.905	$ 224.560	$ 329.595
2/17/2021	$ 78.200	$ 300.000	$ 381.480	$ 133.635	$ 188.320	$ 129.385	$ 622.785
2/18/2021	$ 19.525	$ 428.640	$ 22.595	$ 26.945	$ 19.460	$ 23.390	$ 44.530
2/19/2021	$ 5.785	$ 34.450	$ 6.345	$ 6.050	$ 5.980	$ 6.265	$ 7.945

Q. PLEASE PROVIDE ADDITIONAL DETAILS AS TO WHAT BLACK HILLS WAS DOING DURING THE FEBRUARY EVENT TO MONITOR THE GAS MARKET AND MANAGE BLACK HILLS' SUPPLY OF NATURAL GAS?

A. Black Hills worked diligently and tirelessly throughout the February Event to ensure customer's reliability needs were met with the necessary gas supplies during the extreme event. In addition to updating our load forecasts, Black Hills' personnel worked throughout the February Event to ensure that all purchased gas was flowing as expected and reacted as necessary to address intra-day supply confirmation updates, which did include supply constraints in some service areas. Upstream pipeline conditions and notifications were also continually monitored in order to take action to mitigate exposure to potential pipeline penalties.

Q. DID BLACK HILLS INCUR ANY PENALTIES DURING THE FEBRUARY EVENT?

A. At this time, Black Hills has only incurred minimal penalties.

Q. DID THE COMPANY SELL ANY NATURAL GAS DURING THE FEBRUARY EVENT TO OTHER PARTIES IN KANSAS?

A. No.

Q. HOW DOES THE AVERAGE PRICE FOR ALL OF BLACK HILLS GAS SUPPLIES USED DURING THE FEBRUARY EVENT COMPARE TO THE AVERAGE DAILY MARKET PRICE FOR GAS?

A. As indicated in Direct Exhibit RWD-4A of Mr. Daniel's testimony, the simple average price that Black Hills paid for its baseload and daily gas purchases from February 9th through February 22nd was **_____** per Dth. The average daily market price, at the price index locations associated with Company's gas supply purchases as identified in Table KJK-2, resulted in a simple, non-weighted average of $98.02 per Dth.

Q. DID THE HEDGING PROGRAM HAVE ANY EFFECT ON REDUCING GAS PRICES FOR BLACK HILLS DURING THE FEBRUARY EVENT?

A. The financial hedges did not have an impact on mitigating price exposure on incremental volumes associated with this winter event, as volumes hedged apply to forecasted normal consumption. The hedged volumes, however, were backed by physical supply purchased at First-of-Month (FOM) index pricing, which ranged from $2.52 to $2.61.

Q. DID BLACK HILLS EXPERIENCE ANY SYSTEM OR EQUIPMENT FAILURES DURING THE FEBRUARY EVENT?

A. No. Black Hills did not experience any system or equipment failures during the February Event. The Company did experience supplier related issues at the cities of Attica and

Elkhart, however, projects that are in progress will eliminate the unprocessed supply to these two communities before the next heating season.

Q. WERE ANY EXECUTIVE OR EMERGENCY ORDERS ISSUED BY KANSAS GOVERNMENT OFFICIALS DURING THE FEBRUARY EVENT?

A. Yes. On February 12, 2021, Governor Kelly issued Executive Order No. 21-03 recognizing that severe winter cold had caused interruption to the delivery of essential home heating fuels and declaring a state of emergency. Executive Order No. 21-03 is attached as Direct Exhibit KJK-3. On February 14, 2021, Governor Kelly issued a State of Disaster Emergency Proclamation, which stated that power outages and critical energy supply shortages were anticipated over the next few days. This State of Disaster Emergency Declaration is attached as Direct Exhibit KJK-4. Then on February 15, 2021, the Commission issued its Emergency Order in Docket No. 21-GIMX-303-MIS ("Emergency Order") which contained the following directives:

> A. All jurisdictional natural gas and electric utilities are directed to coordinate efforts and take all reasonably feasible, lawful, and appropriate actions to ensure adequate delivery of natural gas and electricity to interconnected, non-jurisdictional utilities in Kansas; and
>
> B. Jurisdictional natural gas and electric utilities are ordered to do all things possible and necessary to ensure natural gas and electricity utility services continue to be provided to their customers in the State.

The Commission's Emergency Order is attached as Direct Exhibit KJK-5 Exhibits.

Q. WERE BLACK HILLS' GAS PURCHASES AND OTHER ACTIONS TAKEN DURING THE FEBRUARY EVENT CONSISTENT WITH THE DIRECTIVES OF THE COMMISSION'S EMERGENCY ORDER?

A. Yes.

Q. WERE BLACK HILLS GAS PURCHASES AND OTHER ACTIONS TAKEN DURING THE FEBRUARY EVENT JUST, REASONABLE, AND PRUDENT BASED ON INFORMATION AVAILABLE TO BLACK HILLS AT THE TIME DECISIONS RELATED TO THOSE PURCHASES AND ACTIONS WERE MADE?

A. Yes.

Q. PLEASE SUMMARIZE WHY BLACK HILLS' GAS PURCHASES FOR THE FEBRUARY EVENT, WERE BOTH CONSISTENT WITH THE DIRECTIVES OF THE COMMISSION'S EMERGENCY ORDER AND REASONABLE AND PRUDENT.

A. Even before the Commission issued its Emergency Order, Black Hills saw its primary obligation as supplying safe and reliable natural gas service to its customers during their time of need and acted accordingly. Black Hills entered into gas supply related contracts in accordance with the parameters of its GPP for the 2020-21 winter. KCC Staff reviewed the GPP, met with Black Hills, and concluded that Black Hills' gas purchasing practices and hedge plan were reasonable and would result in sufficient gas supply for the 2020-2021 heating season. Black Hills executed its baseload and daily peaking contracts for the 2020-2021 winter in the summer of 2020. The extreme weather, supply, demand, and pricing conditions that developed during the February Event could not reasonably be anticipated at the time Black Hills entered into these contracts. During the extreme weather and market conditions of the February Event, Black Hills' top priority was to acquire sufficient gas supplies to safely maintain natural gas service to its customers. All gas purchases and other supply related decisions made during the February Event were

consistent with the Commission's directive and were reasonable and prudent based on information available to Black Hills at the time decisions were made.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Direct Exhibit KJK-1

Statement of Qualifications

Kent Kopetzky

I obtained a Bachelor of Journalism degree in Broadcasting from the University of Nebraska-Lincoln in 1993. I began my career in the natural gas industry in 1998 when I joined UtiliCorp United/Aquila as a Regulatory Analyst in Omaha, Nebraska. My primary responsibility was the preparation of gas supply cost adjustment compliance filings. I relocated to the Kansas City area in 2001 after accepting a job as the Gas Supply Representative for Aquila's regulated natural-gas-fired power plants in Colorado, Kansas and Missouri. My primary responsibilities included communication of our power plants' daily, monthly and long term natural gas supply needs to our Gas Supply unit. I moved back to Omaha in 2003 after accepting a job as Senior Gas Volume Analyst in Aquila's regulated gas supply group. My responsibilities initially included gas scheduling and capacity management for both our gas utility and regulated power plants, and my duties eventually expanded into gas purchasing. In 2006, I was promoted to Manager, Gas Supply Services where my primary responsibilities included oversight of pipeline nominations, daily and monthly gas purchasing, and the development and support of natural gas requirements for both the company's gas utilities and gas fired power plants.

I became a Black Hills employee after Black Hills purchased Aquila's gas utility assets in 2008. I was promoted to Senior Manager, Gas Supply in 2012. My current responsibilities include leading the scheduling function, developing gas supply plans, and negotiating all physical gas supply purchases for Black Hills gas utility customers in Iowa, Nebraska, and western Kansas, and the Company's regulated power plants in Colorado, Wyoming and South Dakota.

20200727091710
Filed Date: 07/27/2020
State Corporation Commission
of Kansas

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Filing of Written Documents and Gas Purchase Reports by UtiliCorp United, Inc., d/b/a Peoples Natural Gas Company, as Prescribed by Commission Order Dated June 21, 2001 in Docket No. 106,850-U/75-GIMC-009-GIG	)	Docket No. 02-UTCG-371-GPR

NOTICE OF FILING OF STAFF'S MEMORANDUM [PUBLIC VERSION]

The Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively) submits this filing for review and consideration by the Commissioners:

Pursuant to the Commission's June 21, 2001 Order issued in Docket No. 106,850-U/75-GIMC-009-GIG, Staff hereby files the attached Memorandum dated June 15, 2020, and submitted July 23, 2020, informing the Commission of the June 15, 2020 annual meeting of Black Hills and the Citizens' Utility Ratepayer Board, scheduled to discuss Black Hills' 2020-2021 Gas Purchase and Hedge Plan. Because Staff's Memorandum contains confidential commercial information pertaining to Black Hills', Staff, in accordance with K.S.A. 66-1220a, has filed both confidential and public versions of its Memorandum. No Commission action is needed at this time.

WHEREFORE, Staff respectfully submits its Memorandum for the Commission's review and consideration.

Respectfully submitted,

/s/ Carly R. Masenthin

Carly R. Masenthin, #27944
Staff Attorney
1500 SW Arrowhead Rd
Topeka, KS 66604
Phone (785) 271-3361
Email: c.masenthin@kcc.ks.gov

1500 SW Arrowhead Road
Topeka, KS 66604-4027

Kansas
Corporation Commission

Phone: 785-271-3100
Fax: 785-271-3354
http://kcc.ks.gov/

Susan K. Duffy, Chair
Dwight D. Keen, Commissioner
Andrew J. French, Commissioner

Laura Kelly, Governor

REPORT AND RECOMMENDATION
UTILITIES DIVISION
PUBLIC VERSION
****Confidential Information Denoted by Asterisks****

TO: Chair Susan K. Duffy
Commissioner Dwight D. Keen
Commissioner Andrew J. French

FROM: Douglas Hall, Research Economist
Justin Prentiss, Senior Research Economist
Lana Ellis, Deputy Chief of Economics and Rates
Robert Glass, Chief of Economics and Rates
Jeff McClanahan, Director of Utilities

DATE: June 15, 2020

SUBJECT: Docket No. 02-UTCG-371-GPR: *In the Matter of the Filing of Written Documents and Gas Purchase Reports by UtiliCorp United Inc., d/b/a People Natural Gas Company and Kansas Public Service Company, as Prescribed by Commission Order Dated June 21, 2001 in Docket No. 106,850-U/75GIMC-009-GIG.*

EXECUTIVE SUMMARY

On June 15, 2020, Staff met with Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy (Black Hills or Company), and the Citizens' Utility Ratepayer Board (CURB) to discuss Black Hills' 2020-2021 Gas Purchase Plan and Hedge Plan. Based on its Gas Purchase Plan and the information provided during the meeting, Staff believes that the Company's gas purchasing practices are reasonable and that Black Hills is able to supply sufficient gas for the 2020-2021 heating season (November 2020 through March 2021). In addition, Staff believes Black Hills' proposed Hedge Plan is reasonable. Staff will continue to monitor Black Hills' hedge and gas purchasing practices and will inform the Commission of any significant changes. No Commission action is required at this time.

BACKGROUND

On June 15, 2020, Staff met with members of Black Hills and CURB to discuss Black Hills' 2020-2021 Gas Purchase Plan and Hedge Plan. This meeting is an annual requirement pursuant to the Commission's June 21, 2001 Order issued in Docket No. 106,850-U/75-GIMC-009-GIG and the Stipulation and Agreement approved in Docket No. 05-AQLG-616-HED.

75-GIMC-009-GIG Order Paragraph 4 Requirements

Pursuant to the Order in Docket No. 75-GIMC-009-GIG, the Commission requires an annual meeting to review and discuss the utility's gas portfolio, contracts, and purchasing practices. The primary purpose of the meetings is to discuss the utility's plans for the upcoming year. The substance of these meetings should include a review of the next year's plans for gas purchases, transportation, storage, capacity release, and risk management. Black Hills must also file an annual report of its Gas Purchase Plan each year, which details its current situation, states its plans for the next 12 months, and evaluates the manner in which its plans for the prior year were followed or modified. An evaluation of the previous year's activities and plans is to provide a basis for considering whether changes might be appropriate.

05-AQLG-616-HED S&A Paragraph 5 Requirements

Per the terms of the 05-AQLG-616-HED S&A, Black Hills must meet with and consult with Staff and CURB prior to program implementation for the purpose of establishing a planned program design, which includes specifying certain parameters (quantity or volume of gas to hedge, months to be hedged, price cap level, hedge instruments to be used, and timing of hedge placement). While Black Hills has full discretion over selection of the final program parameters, Black Hills must describe its decision-making process and the budget for its Gas Hedge Program cannot exceed $2.3 million annually. Black Hill's must also submit a report on the cumulative, historical performance of its hedge program efforts at the end of each program year. In addition, Black Hills must meet with Staff and CURB to discuss any significant changes from the planned hedge program that may arise over the course of the implementation period.

ANALYSIS

The Company filed its report on May 6, 2020. At the meeting, Black Hills presented its view of market dynamics, last year's Hedge and Purchase Plan performance, as well as this year's Hedge Plan and portfolio strategy as discussed below.

Market Dynamics

Current Market

The 2019-2020 winter was 6.6% warmer than normal and, by the end of April, national storage levels were 17% higher than the five-year average.[1] EIA expects natural gas production to decline from year-ago levels this summer. EIA's April 2020 Short-Term Energy Outlook forecast is subject to heightened uncertainty because of economic slowdown and significant recent changes in energy markets.[2]

Short-Term Outlook

In part, the Energy Information Administration's (EIA) *Short-Term Energy Outlook* reports on the performance of the natural gas industry and makes forecasts for the upcoming years. The April edition is subject to heightened levels of uncertainty because the impacts of the 2019 novel

[1] Black Hills Energy Gas Supply Plan 2020-2021 Presentation, June 15, 2020 (2020 Presentation).
[2] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 7.

coronavirus disease (COVID-19) on energy markets are still evolving. The COVID-19 pandemic has caused significant changes in energy fuel supply and demand patterns.[3]

EIA's consumption forecast for 2020 went from forecasting growth to an expected decrease from March to April.[4] Residential consumption is expected to decrease primarily because of warmer-than-normal temperatures in the first quarter of 2020. Commercial and industrial consumption are expected to decrease due to a slowing economy.[5]

These warmer-than-normal temperatures and a slowing economy reduced demand and placed downward pressure on prices, driving the Henry Hub natural gas spot price to $1.74/MMBtu in March.[6] However, declining natural gas production and increases in natural gas use for power generation are expected to cause a rise in prices at the end of the second quarter of 2020, averaging $2.11/MMBtu in 2020 and increasing to $2.98/MMBtu in 2021. The forecasted 2020 to 2023 Henry Hub spot price is $2.77/MMBtu.[7]

U.S. dry natural gas production is expected to decline from 2019 to 2020. While 2019 was a record year for production at an average of 92.2 billion cubic feet per day, low prices are discouraging drilling and reducing gas output from-oil-directed wells in the Appalachian and Permian regions. Monthly production will fall from an estimated 94.4 billion cubic feet per day in March of 2020 to 87.5 billion cubic feet per day in December.[8]

Long-Term Outlook

Natural gas production in EIA's Reference case grows 1.9% per year from 2020 to 2025 which is lesser than the 5.1% per year average growth rate from 2015 to 2020.[9] Production slows after 2020 through 2030 due to slower industrial sector growth, and rises about 1% per year on average beyond 2030. U.S. natural gas production is expected to grow at a faster rate than consumption, leading to increased exports of natural gas.[10] However, natural gas spot prices will continue to increase through 2050 because of increased production costs as production expands into more-expensive-to-produce areas.[11]

2019-2020 Plan Performance

In Black Hills' 2019-2020 Gas Purchase Plan (Plan), the Company indicated it expected to cover its supply requirements by purchasing ** [redacted] ** at Index-prices without a financial hedge, ** [redacted] ** of purchases to be backed by Call Options, and ** [redacted] ** withdrawn from storage.[12] Black Hills stated that the Plan was executed according to the filed Plan and that it was able to cover storage requirements for the 2019-2020 heating season.[13]

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[3] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 8.
[4] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 9.
[5] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 9.
[6] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 8.
[7] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 8.
[8] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 9.
[9] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 10.
[10] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 10.
[11] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 11.
[12] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 17.
[13] 2020 Presentation.

In 2019-2020, Black Hills planned to hedge ** ** Bcf, which was ** ** of forecasted demand volumes, using call exclusively with a budget of ** **.[14] Actual volumes hedged were ** ** Bcf[15] with an average call cost of ** ** per Dth (or ** ** per Bcf) and a cost of ** **.[16]

2020-2021 Portfolio Strategy

Black Hills uses regression analysis to forecast daily usage and the corresponding supply requirements. Black Hills expects a normal winter requirement of ** **[17] Bcf for the upcoming heating season and estimates that its total supply requirement for the year will be ** ** Bcf.[18] Because forecasts are based on normal weather requirements, actual usage could differ due to warmer or colder temperatures throughout the heating season.

The majority of gas Black Hills delivers to its customers is purchased from its suppliers,[19] who deliver it into the interstate pipeline systems for transport by Black Hills to its city-gates. The second supply source is to withdraw gas from storage.[20] Black Hills has indicated that its strategy for the 2020-2021 winter will be similar to the previous year's Plan.[21] The plan entails purchasing approximately ** ** of normal requirements at Seasonal-Index prices without a financial hedge, ** ** of normal requirements purchased will be backed by Call Options at a fixed strike price, and the remaining ** ** of normal requirements will be withdrawn from storage.[22]

Seasonal-Index Purchases

** ** of Black Hills' normal winter requirements will be purchased at Inside FERC Index prices as described in the "Natural Gas Purchasing Process" discussed above.[23] The total Seasonal-Index volumes are approximately ** ** Bcf of winter requirements.[24]

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[14] Black Hills Annual Purchase Plan 2019-2020 p. 19.

[15] Black Hills Annual 2020-2021 Gas Purchase Plan, Exhibit 12.

[16] 2020 Presentation.

[17] Black Hills projects system wide growth of ** **. The projected growth factor is based on sales customer counts for February 2019 compared to February 2020 customer counts. Black Hills attributes the majority of the growth to normal load growth. Black Hills Annual 2020-2021 Gas Purchase Plan, Page 2. Normal winter requirement is from the Black Hills Annual 2020-2021 Gas Purchase Plan, Exhibit 13.

[18] Black Hills estimates normal sales and storage requirements for the year beginning in May and ending in the following April. Black Hills Annual 2020-2021 Gas Purchase Plan, Exhibit 1.

[19] Black Hills secures its natural gas requirements through Term Supply, Monthly Supply, and Daily Supply Purchases. Term Supply purchases are packages of gas that are in excess of a calendar month and obtained through a Request-For-Proposal (RFP) process. Term Supply purchases can either be Fixed or Index: Term-Fixed means that both the term and the price of the purchase are fixed for more than one month; Term-Index means that the term is fixed for more than one month, but the price will reflect the resulting index each month. Monthly Supply packages of gas are purchased in the spot market for a one-month term based on an index or a fixed price. Daily Supply packages of gas are purchased in the spot market on a day-to-day basis, which may be based on an index or a fixed price. 2020-2021 Gas Purchase Plan, p.18.

[20] Black Hills Annual 2020-2021 Gas Purchase Plan, p.18.

[21] Black Hills Annual 2020-2021 Gas Purchase Plan, p.17.

[22] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 18.

[23] Index terms are fixed for more than one month. This type of supply is locked in, eliminating the risk of not being available when needed, and the price is index-based which means it will be at or near market prices each month.

[24] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 20.

Call Options/Financial Hedging

** [redacted] ** or ** [redacted] ** Bcf of Black Hills' normal winter requirements are backed by purchasing Call Options at a budgeted premium price up to ** [redacted] **.[25] The same budget as the previous year of up to ** [redacted] ** million will be spent to purchase Call Options. Further, Black Hills will purchase all Options financially and the corresponding physical gas will be purchased at Inside FERC Indexes.[26]

Storage Injections/Withdrawals

Typically, Black Hills injects natural gas into storage during the months of May through October with ** [redacted] ** to ** [redacted] ** of Maximum Storage Quantity (MSQ) injected each month.[27] Black Hills estimates that it will inject ** [redacted] ** or ** [redacted] ** Bcf of normal winter requirements during its injection season.[28] This will fill the storage to around ** [redacted] ** MSQ. From November through March, gas is withdrawn from storage to a final balance of around ** [redacted] ** MSQ. This ** [redacted] ** cushion is left at the beginning and end of the heating season to aid if temperatures are warmer or colder than normal.

RECOMMENDATION

Staff believes that Black Hills is able to supply sufficient gas for the 2020-2021 heating season based on its Gas Purchase Plan and the information provided at the meetings held on June 15, 2020. Staff also believes Black Hill's proposed Hedge Plan is reasonable. Staff will continue to monitor Black Hills' hedge and gas purchasing practices and will inform the Commission of any significant changes. No Commission action is required at this time.

[25] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 19.
[26] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 18.
[27] Black Hills Annual 2020-2021 Gas Purchase Plan, p. 1.
[28] Black Hills Annual 2020-2021 Gas Purchase Plan, Exhibit 13.

CERTIFICATE OF SERVICE

02-UTCG-371-GPR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Memorandum [Public Version] was served electronically this 27th day of July, 2020, to the following:

JAMES G. FLAHERTY, ATTORNEY
ANDERSON & BYRD, L.L.P.
216 S HICKORY
PO BOX 17
OTTAWA, KS 66067
Fax: 785-242-1279
jflaherty@andersonbyrd.com

THOMAS D. STEVENS, DIRECTOR OF REGULATORY
Black Hills/Kansas Gas Utility Company LLC
D/B/A Black Hills Energy
655 Millsap Rd Suite 104
Fayetteville, AR 72703
tom.stevens@blackhillscorp.com

JOSEPH R. ASTRAB, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
j.astrab@curb.kansas.gov

TODD E. LOVE, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
t.love@curb.kansas.gov

DAVID W. NICKEL, CONSUMER COUNSEL
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.nickel@curb.kansas.gov

SHONDA RABB
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
s.rabb@curb.kansas.gov

DELLA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.smith@curb.kansas.gov

CARLY MASENTHIN, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3354
c.masenthin@kcc.ks.gov

Vicki Jacobsen
Vicki Jacobsen

PUBLIC VERSION

Direct Exhibit KJK-3

STATE OF KANSAS

CAPITOL BUILDING, ROOM 241 SOUTH
TOPEKA, KS 66612

PHONE: (785) 296-3232
GOVERNOR.KANSAS.GOV

GOVERNOR LAURA KELLY

EXECUTIVE ORDER NO. 21-03

Conditional and Temporary Relief from Certain Motor Carrier Rules and Regulations

WHEREAS, K.S.A. 48-925(b) provides that the Governor may issue orders and proclamations which shall have the force and effect of law under subsection (b) of K.S.A. 48-924;

WHEREAS, severe winter cold, in the mid-west and upper mid-west, has caused an interruption to the delivery of essential home heating fuels;

WHEREAS, these conditions require the operation of motor carriers and drivers of commercial motor vehicles for the purposes of providing direct assistance to supplement State and local efforts in the restoration of services and relief in the affected area(s) of the State of Kansas;

WHEREAS, this disaster has caused or threatens to cause an emergency as defined in 49 C.F.R. 390.5, as adopted by K.A.R. 82-4-3f, and which has or threatens to interrupt the delivery of essential services or essential supplies or otherwise immediately threatens physical harm or injury to persons, the public welfare and/or substantial damage to property;

NOW, THEREFORE, pursuant to the authority vested in me as Governor of the State of Kansas, I hereby acknowledge a state of emergency exists in Kansas and declare it necessary to assist and expedite all disaster recovery efforts. In order to accommodate this need and to provide assistance to the citizens of Kansas in this emergency situation, I hereby order the following:

1. This declaration applies to motor carriers directly participating in relief efforts; and

2. In accordance with Title 49 C.F.R. § 390.23(a)(1) allowing for the suspension of motor carrier regulations in the event of a regional emerency, the requirements contained in the Federal Motor Carrier Safety Regulations, Title 49 C.F.R. Parts 390-399 are hereby suspended through the duration of the motor carrier's assistance in the disaster relief effort not to exceed a period of thirty (30) days from the date of the initial declaration unless the order is rescinded or expanded by executive order or concurrent resolution of the legislature; and

3. All other applicable state and federal regulations shall apply to include but not limited to: Title 49 C.F.R. Part 382, Controlled Substances and Alcohol Use and Testing; the Kansas Motor Vehicle Driver's License Act, K.S.A. 8-234 *et. seq.* and Title 49 C.F.R. Part 383 Commercial Driver's License Standards as adopted by the Kansas Uniform Commercial Drivers' License Act, K.S.A. 8-2,125 *et. seq.*, the federal Minimum Levels of Financial Responsibility (insurance requirements) Title 49 C.F.R. Part 387 as adopted by K.A.R. 82-4-3n and state insurance requirements as provided in K.A.R. 82-4-23, and the regulations

governing transportation of hazardous materials in Kansas in 49 C.F.R. Part 107, 171, 172, 173, 177, 178 and 180 as adopted by K.A.R. 82-4-20.

This document shall be filed with the Secretary of State as Executive Order No. 21-03 and shall become effective immediately. This order will continue in effect until 11:59 PM on February 28, 2021, or until rescinded, whichever occurs first.

THE GOVERNOR'S OFFICE BY THE GOVERNOR _____

DATED 2.12.21

FILED
FEB 12 2021
SCOTT SCHWAB
SECRETARY OF STATE

_____
Secretary of State

_____
Assistant Secretary of State

PUBLIC VERSION **Direct Exhibit KJK-4**

STATE OF DISASTER EMERGENCY PROCLAMATION

Executive Department
State of Kansas
Topeka, Kansas

By the Governor

By virtue of the authority vested in me by the Kansas Emergency Management Act, Chapter 48, Article 9, of the Kansas Statutes Annotated, to meet the inherent dangers of disasters to which the State and its citizens have been exposed, and upon advice of the State Adjutant General as the Director of the Division of Emergency Management, I hereby proclaim a State of Disaster Emergency as follows:

NATURE OF THE DISASTER:

Low temperatures with sub-zero wind chills over the past several days accompanied by snow, sleet, and freezing rain across the state have caused stress on the energy infrastructure. Power outages and critical energy supply shortages are anticipated over the next few days. Communities are feeling the impacts with water main breaks, the need for warming stations, and seeing an increase in the demand for natural gas and electricity.

DATE THAT DISASTER AFFECTED THE AREA:

February 14, 2021 and continuing

AREA AFFECTED BY THE DISASTER:

All Kansas counties and Federally Recognized Indian Tribes in Kansas

I hereby proclaim, direct, and order the Adjutant General of the State of Kansas to activate the disaster response and recovery portions of the Kansas Response Plan and to utilize all available resources of the state to cope with the disaster as necessary. The Adjutant General shall coordinate local and inter-jurisdictional disaster plans applicable to the political subdivisions of areas affected by this Proclamation.

Any or all of the powers conferred upon the Governor by the Kansas Emergency Management Act may be delegated to the Adjutant General as deemed appropriate during this period of proclaimed State of Disaster Emergency. This may be delegated by written orders or oral orders subsequently reduced to writing with reference to this Proclamation.

I hereby suspend the provisions of any regulatory statute prescribing the procedures for conduct of state business, or the order or rules and regulations of any state agency which implements such statute, if strict compliance with the provisions of such statutes, order or rule and regulation would prevent, hinder, or delay in any way necessary action in coping with the disaster as set forth in KSA 48-925(c)(1).

I hereby direct state agencies to implement necessary continuity activities to ensure the delivery of essential functions that include continuity of operations (COOP) planning with pandemic considerations applied.

This Proclamation shall be filed promptly with the Division of Emergency Management, the Office of the Secretary of State and each city clerk or county clerk, as appropriate, in the area to which this Proclamation applies. Further dissemination of this Proclamation shall occur by means calculated to bring its contents to the attention of the general public.

DONE At the Capitol in Topeka
Under the Great Seal of the State
this 14th, day of February
A.D., 2021

FILED
FEB 15 2021
SCOTT SCHWAB
SECRETARY OF STATE

BY THE GOVERNOR

Secretary of State

Assistant Secretary of State

20210215115542
Kansas Corporation Commission

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Andrew J. French, Chairperson
Dwight D. Keen
Susan K. Duffy

In the Matter of Record Natural Gas Prices and Potential System Reliability Issues from Unprecedented and Sustained Cold Weather.	)))	Docket No. 21-GIMX-303-MIS

EMERGENCY ORDER

This matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed the pleadings and record, the Commission makes the following findings:

1. On February 14, 2021, Governor Kelly issued an State of Disaster Emergency due to wind chill warnings and stress on utility and natural gas providers, noting that the current sub-zero temperatures are causing increased energy demand and natural gas supply constraints throughout Kansas, and utilities are currently experiencing wholesale natural gas price increase from 10 to 100 times higher than normal (the "2021 Winter Weather Event"). Those costs will eventually flow through to consumers through increases in monthly natural gas and electric bills. Additionally, Kansas utilities are facing potential reliability issues related to the prolonged arctic temperatures. Therefore, under these circumstances, the Commission, pursuant to K.S.A. 77-536(a), will exercise its powers to protect the public from immediate danger to health, safety, and welfare.

2. In the public interest, the Commission has jurisdiction to regulate and oversee certain facets of service provided by natural gas public utilities and electric utilities operating in

the State, and is empowered to do certain things necessary and convenient to exercise its authority.[1]

3. K.S.A. 77-536(a) provides State agencies with the authority to act when there is "an immediate danger to the public health, safety or welfare requiring immediate state agency action." Pursuant to K.S.A. 77-536(a), the Commission directs all jurisdictional natural gas and electric utilities to coordinate efforts and take all reasonably feasible, lawful, and appropriate actions to ensure adequate transportation of natural gas and electricity to interconnected, non-jurisdictional Kansas utilities. Jurisdictional natural gas and electric utilities are ordered to do everything necessary to ensure natural gas and electricity service continues to be provided to their customers in Kansas.

4. The Commission authorizes every jurisdictional electric and natural gas distribution utility that incurs extraordinary costs associated with ensuring that their customers or the customers of interconnected Kansas utilities that are non-jurisdictional to the Commission continue to receive utility service during this unprecedented cold weather event to defer those costs to a regulatory asset account. Such costs include but are not limited to the cost of procuring and transporting natural gas supplies for jurisdictional utility customers, costs associated with jurisdictional utilities coordinating and assisting non-jurisdictional utilities with the transportation of gas supplies[2], and any other reasonable costs necessary to ensure stability and reliability of natural gas and electricity service. These deferred costs may also include carrying costs at the utility's weighted average cost of capital. All deferred costs shall be segregated by detailed cost category and shall contain enough detail for the Commission to perform a subsequent review for prudence and reasonableness. This deferral is for accounting

[1] K.S.A. 66-1,201; K.S.A. 66-101.
[2] Nothing in this section is intended to require a jurisdictional utility to procure natural gas supplies for non-jurisdictional utilities.

purposes only. Any decisions related to ratepayer recovery will be addressed in future proceedings.

5. Each utility bears the burden of proof that the costs described in paragraph 4: (1) would not have been incurred but for the 2021 Winter Weather Event, and (2) are just, reasonable, and necessary to provide utility services during this extraordinary event. Once this 2021 Winter Weather Event is over, and after all costs have been accumulated and recorded, each jurisdictional utility is directed to file a compliance report in this Docket detailing the extent of such costs incurred, and present a plan to minimize the financial impacts of this event on ratepayers over a reasonable time frame.

THEREFORE, THE COMMISSION ORDERS:

A. All jurisdictional natural gas and electric utilities are directed to coordinate efforts and take all reasonably feasible, lawful, and appropriate actions to ensure adequate delivery of natural gas and electricity to interconnected, non-jurisdictional utilities in Kansas.

B. Jurisdictional natural gas and electric utilities are ordered to do all things possible and necessary to ensure natural gas and electricity utility services continue to be provided to their customers in the State.

C. Every electric and natural gas distribution utility that incurs extraordinary costs associated with ensuring its customers or the customers of interconnected Kansas utilities that are non-jurisdictional to the Commission continue to receive utility service during this unprecedented cold weather event is authorized to defer those costs to a regulatory asset account.

BY THE COMMISSION IT IS SO ORDERED.

French, Chairperson; Keen, Commissioner; Duffy, Commissioner

Dated: 02/15/2021

Lynn M. Retz
Executive Director

BGF

CERTIFICATE OF SERVICE

21-GIMX-303-MIS

I, the undersigned, certify that a true copy of the attached Order has been served to the following by means of electronic service on 02/15/2021.

MONTE PRICE
AMARILLO NATURAL GAS COMPANY
2915 I-40 WEST
AMARILLO, TX 79109
Fax: 806-352-3721
mwprice@anginc.net

KENNETH R. SMITH, EXECUTIVE VP
AMERICAN ENERGIES GAS SERVICE, LLC
915 ONE ENERGY SQUARE
4925 GREENVILLE AVE STE 915
DALLAS, TX 75206
Fax: 0--
ksmith@trekresources.com

DAWN GRAFF, MIDSTREAM ACCOUNTING MANAGER
ANADARKO NATURAL GAS COMPANY
1099 18th Street
DENVER, CO 80202
dawn.graff@anadarko.com

SHELLY M BASS, SENIOR ATTORNEY
ATMOS ENERGY CORPORATION
5430 LBJ FREEWAY
1800 THREE LINCOLN CENTRE
DALLAS, TX 75240
shelly.bass@atmosenergy.com

ATTN: GAS SERVICE CONTACT
ATMOS ENERGY CORPORATION
5420 LBJ FWY STE 1600 (75240)
P O BOX 650205
DALLAS, TX 75265-0205
jennifer.ries@atmosenergy.com

ROB DANIEL, MGR. REG. & FINANCE
BLACK HILLS/KANSAS GAS UTILITY COMPANY LLC
D/B/A Black Hills Energy
601 NORTH IOWA STREET
LAWRENCE, KS 66044
rob.daniel@blackhillscorp.com

ANN STICHLER, SNR. ANALYST-REG. & FINANCE
BLACK HILLS/KANSAS GAS UTILITY COMPANY LLC
D/B/A Black Hills Energy
2287 College Road
Council Bluffs, IA 51503
ann.stichler@blackhillscorp.com

DARI DORNAN, ASSOCIATE GENERAL COUNSEL
BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC
D/B/A BLACK HILLS ENERGY
1731 Windhoek Drive
Lincoln, NE 68512
dari.dornan@blackhillscorp.com

TOM STEVENS, DIRECTOR REGULATORY & FINANCE
BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC
D/B/A BLACK HILLS ENERGY
655 EAST MILLSAP DRIVE
FAYETTEVILLE, AR 72703
tom.stevens@blackhillscorp.com

SARAH MADDEN, OFFICE MANAGER
BUTLER RURAL ELECTRIC COOPERATIVE ASSN., INC.
D/B/A VELOCITY
216 S VINE ST
PO BOX 1242
ELDORADO, KS 67042
Fax: 316-321-9980
smadden@butler.coop

CERTIFICATE OF SERVICE

21-GIMX-303-MIS

JOSEPH R. ASTRAB, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
j.astrab@curb.kansas.gov

TODD E. LOVE, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
t.love@curb.kansas.gov

DAVID W. NICKEL, CONSUMER COUNSEL
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.nickel@curb.kansas.gov

SHONDA RABB
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
s.rabb@curb.kansas.gov

DELLA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.smith@curb.kansas.gov

SHERI RICHARD, DIRECTOR, RATES AND REGULATORY AFFAIRS
EMPIRE DISTRICT ELECTRIC COMPANY
602 S JOPLIN AVENUE
PO BOX 127
JOPLIN, MO 64802
Fax: 417-625-5169
sheri.richard@libertyutilities.com

KELLY WALTERS, VICE-PRESIDENT
EMPIRE DISTRICT INDUSTRIES, INC.
602 JOPLIN
PO BOX 127
JOPLIN, MO 64802-0127
Fax: 417-625-5173
kwalters@empiredistrict.com

CATHRYN J. DINGES, CORPORATE COUNSEL
EVERGY KANSAS CENTRAL, INC
818 S KANSAS AVE
PO BOX 889
TOPEKA, KS 66601-0889
Fax: 785-575-8136
cathy.dinges@evergy.com

LARRY WILKUS, DIRECTOR, RETAIL RATES
EVERGY KANSAS CENTRAL, INC
FLOOR #10
818 S KANSAS AVE
TOPEKA, KS 66601-0889
larry.wilkus@evergy.com

ROBERT J. HACK, LEAD REGULATORY COUNSEL
EVERGY METRO, INC
D/B/A EVERGY KANSAS METRO
One Kansas City Place
1200 Main St., 19th Floor
Kansas City, MO 64105
Fax: 816-556-2787
rob.hack@evergy.com

KIRK HEGER, PRESIDENT
FREEDOM PIPELINE, LLC
PO BOX 100
HUGOTON, KS 67951
ag1stkh@pld.com

MARK DOTY
GLEASON & DOTY CHTD
401 S MAIN ST STE 10
PO BOX 490
OTTAWA, KS 66067-0490
Fax: 785-842-6800
doty.mark@gmail.com

CERTIFICATE OF SERVICE

21-GIMX-303-MIS

THOMAS E. GLEASON, JR., ATTORNEY
GLEASON & DOTY CHTD
PO BOX 6
LAWRENCE, KS 66044
Fax: 785-856-6800
gleason@sunflower.com

COLLEEN JAMISON
JAMISON LAW, LLC
P O BOX 128
TECUMSEH, KS 66542
colleen.jamison@jamisonlaw.legal

COLE BAILEY, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3354
c.bailey@kcc.ks.gov

BRIAN G. FEDOTIN, GENERAL COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3354
b.fedotin@kcc.ks.gov

TERRI PEMBERTON, CHIEF LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3354
t.pemberton@kcc.ks.gov

MARK DOLJAC, DIR RATES AND REGULATION
KANSAS ELECTRIC POWER CO-OP, INC.
600 SW CORPORATE VIEW
PO BOX 4877
TOPEKA, KS 66604-0877
Fax: 785-271-4888
mdoljac@kepco.org

JANET BUCHANAN, DIRECTOR- REGULATORY AFFAIRS
KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
7421 W 129TH ST
OVERLAND PARK, KS 66213-2713
Fax: 913-319-8622
janet.buchanan@onegas.com

JUDY JENKINS HITCHYE, MANAGING ATTORNEY
KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC.
7421 W 129TH ST
OVERLAND PARK, KS 66213-2713
Fax: 913-319-8622
judy.jenkins@onegas.com

JAMES FLAHERTY, ANDERSON BYRD
LIBERTY UTILITIES CORP
P.O. BOX 17
OTTAWA, KS 66067
jflaherty@andersonbyrd.com

JAMES BRUNGARDT, MANAGER, REGULATORY RELATIONS
MID-KANSAS ELECTRIC COMPANY, LLC
301 W 13TH ST
PO BOX 980
HAYS, KS 67601
Fax: 785-623-3395
jbrungardt@sunflower.net

TOM MEIS, VICE PRESIDENT FINANCE, CFO
MIDWEST ENERGY, INC.
1330 CANTERBURY DRIVE
PO BOX 898
HAYS, KS 67601-0898
Fax: 785-625-1494
tmeis@mwenergy.com

STEPHEN J. EPPERSON, CEO
PIONEER ELECTRIC COOP. ASSN., INC.
1850 W OKLAHOMA
PO BOX 368
ULYSSES, KS 67880-0368
Fax: 620-356-4306
sepperson@pioneerelectric.coop

CERTIFICATE OF SERVICE

21-GIMX-303-MIS

KIRK A. GIRARD, ASSISTANT CEO
PRAIRIE LAND ELECTRIC COOPERATIVE, INC.
14935 US HWY 36
PO BOX 360
NORTON, KS 67654-0360
Fax: 785-877-3572
kgirard@ple.coop

RANDY MAGNISON, EXEC VP & ASST CEO
SOUTHERN PIONEER ELECTRIC COMPANY
1850 W OKLAHOMA
PO BOX 430
ULYSSES, KS 67880-0368
Fax: 620-356-4306
rmagnison@pioneerelectric.coop

THOMAS K. HESTERMANN, MANAGER, REGULATORY RELATIONS
SUNFLOWER ELECTRIC POWER CORPORATION
301 W. 13TH
PO BOX 1020
HAYS, KS 67601-1020
Fax: 785-623-3373
tkhestermann@sunflower.net

SHANE LAWS, CEO
VICTORY ELECTRIC COOPERATIVE ASSN., INC.
3230 N 14TH ST
PO BOX 1335
DODGE CITY, KS 67801-1335
Fax: 620-227-8819
shane@victoryelectric.net

THOMAS RUTH, GENERAL MANAGER
WESTERN COOPERATIVE ELECTRIC ASSN., INC.
635 S 13TH ST
PO BOX 278
WAKEENEY, KS 67672-0278
Fax: 785-743-2717
tomr@westerncoop.com

BRUCE MUELLER, CEO
WHEATLAND ELECTRIC COOPERATIVE
D/B/A Wheatland Broadband Services
101 SOUTH MAIN STREET
P.O. BOX 230
SCOTT CITY, KS 67871
Fax: 620-872-7170
bmueller@weci.net

JOEL D. BRYAN, DIRECTOR OF FINANCE
WHEATLAND ELECTRIC COOPERATIVE, INC.
101 MAIN ST
PO BOX 230
SCOTT CITY, KS 67871-0230
Fax: 620-872-7170
electric@weci.net

/S/ DeeAnn Shupe
DeeAnn Shupe

CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via electronic mail this 16th day of June 2021, addressed to:

JEFF AUSTIN
AUSTIN LAW P.A.
7111 W. 151st St.
Suite 315
Overland Park, KS 66223
jeff@austinlawpa.com

ROB DANIEL
BLACK HILLS/KANSAS GAS UTILITY COMPANY
D/B/A BLACK HILLS ENERGY
601 North Iowa Street
Lawrence, KS 66044
rob.daniel@blackhillscorp.com

ANN STICHLER
BLACK HILLS/KANSAS GAS UTILITY COMPANY
D/B/A BLACK HILLS ENERGY
2287 College Road
Council Bluffs, IA 51503
ann.stichler@blackhillscorp.com

TOM STEVENS
BLACK HILLS/KANSAS GAS UTILITY COMPANY
D/B/A BLACK HILLS ENERGY
655 East Millsap Drive
Fayetteville, AR 72703
tom.stevens@blackhillscorp.com

JULIE AGRO
BLUEMARK ENERGY
4200 East Skelly Drive
Suite 300
Tulsa, OK 74135
jagro@bluemarkenergy.com

MIKE WESTBROCK
BLUEMARK ENERGY
4200 East Skelly Drive
Suite 300
Tulsa, OK 74135
westbrock@bluemarkenergy.com

JOSEPH R. ASTRAB, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
j.astrab@curb.kansas.gov

TODD E. LOVE, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
t.love@curb.kansas.gov

DAVID W. NICKEL, CONSUMER COUNSEL
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.nickel@curb.kansas.gov

SHONDA RABB
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
s.rabb@curb.kansas.gov

DELLA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3116
d.smith@curb.kansas.gov

MONTGOMERY ESCUE, CONSULTANT
FREEDOM PIPELINE, LLC
PO BOX 622377
OVIEDO, FL 63762
montgomery@escue.com

KIRK HEGER
FREEDOM PIPELINE, LLC
1901 UNIVERSITY DRIVE
LAWRENCE, KS 66044
kirkheger@gmail.com

BRIAN G. FEDOTIN, GENERAL COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3354
b.fedotin@kcc.ks.gov

LAUREN LAUSHMAN, OFFICE OF GENERAL COUNSEL
ATTORNEY
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3354
l.laushman@kcc.ks.gov

MICHAEL NEELEY, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3167
m.neeley@kcc.ks.gov

TERRI PEMBERTON, CHIEF LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
Fax: 785-271-3354
t.pemberton@kcc.ks.gov

GLENDA CAFER, ATTORNEY
MORRIS LAING EVANS BROCK & KENNEDY
800 SW JACKSON
SUITE 1310
TOPEKA, KS 66612-1216
Fax: 785-233-3040
gcafer@morrislaing.com

RICHARD L. HANSON
RICHARD L. HANSON
16171 ROAD I
LIBERAL, KS 67901
rlhanson@wbsnet.org

/s/ James G. Flaherty
James G Flaherty