

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Application of Black Hills/Kansas Gas Utility Company, LLC d/b/a Black Hills Energy, for Approval of the Commission for a Gas System Reliability Surcharge per K.S.A. 66-2201 through 66-2204.)
)
) Docket No. 22-BHCG-503-TAR
)
)
)

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION

The Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively) submits its Report and Recommendation and states as follows:

Staff hereby files the attached Report and Recommendation dated July 1, 2022 recommending the Commission approve Black Hills/Kansas Gas Utility Company, LLC d/b/a/ Black Hills Energy (Black Hills) updated Gas System Reliability Surcharge (GSRS). Staff's audit resulted in revised capital expenditures of \$14,176,883 and a revised GSRS revenue requirement of \$1,373,409. Staff has reviewed all testimony, exhibits, and discovery responses from Black Hills Energy in this Docket and finds that the revised capital expenditures of \$14,176,883 meets the eligibility requirements and recommends they be included in the GSRS.

WHEREFORE, Staff respectfully requests that the Commission adopts its recommendation of approving Black Hills' revised GSRS revenue increase.

Respectfully submitted,

/s/ Jared R. Jevons

Jared R. Jevons, #28913
Litigation Counsel
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Email: j.jevons@kcc.ks.gov

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

FROM: Kristina Luke Fry, Managing Auditor
Ashlyn Hefley, Utilities Engineer
Leo Haynos, Chief Engineer
Justin Grady, Chief of Revenue Requirement, Cost of Service and Finance
Jeff McClanahan, Director of Utilities

DATE: July 1, 2022

SUBJECT: Docket No. 22-BHCG-503-TAR – In the Matter of the Application of Black Hills/Kansas Gas Utility Company, LLC d/b/a Black Hills Energy, for Approval of the Commission for a Gas System Reliability Surcharge per K.S.A. 66-2201 through 66-2204.

EXECUTIVE SUMMARY:

Black Hills Energy (BHE) filed a request to amend its Gas System Reliability Surcharge (GSRS) tariff schedule to recover \$14,178,801 in capital expenditures. Staff has reviewed all testimony, exhibits, and discovery responses from BHE and recommends \$14,176,883 of requested capital expenditures be recovered through the GSRS. Due to Staff's recommendation regarding recoverable capital costs and after revising the capital structure included in BHE's Application, Staff is recommending an incremental GSRS revenue requirement of \$1,373,409, a \$187 decrease from BHE's requested amount of \$1,373,596. If approved, this filing increases residential customer bills by \$0.74 monthly or \$8.88 annually. Staff is required to examine this GSRS filing and submit a Report and Recommendation to the Commission within 60 days of the original filing date regarding the appropriateness for GSRS recovery of the projects included and the proper calculation of the surcharge. Therefore, a Report and Recommendation in this Docket is due by July 8, 2022.

BACKGROUND:

On May 9, 2022, BHE filed an Application requesting Commission approval to implement changes in its GSRS tariff schedule. BHE's requested tariff was designed to provide for an incremental revenue increase of \$1,373,596 based off capital costs totaling \$14,178,801.¹

K.S.A. 66-2204 requires Staff to examine information from the utility and confirm that the underlying costs are in accordance with the statutory provisions of the Gas Safety and Reliability

¹ Black Hills Application for a Gas System Reliability Surcharge, Exhibit ALS-4 (May 9, 2022) (BHE Application).

Policy Act. Staff is required to file a Report and Recommendation in this Docket by July 8, 2022.² The Commission is required to issue a Final Order on the Application within 120 days of the filing date, which is September 6, 2022.³

History

The Gas Safety and Reliability Policy Act, K.S.A. 66-2201 through 66-2204, was enacted by the Kansas Legislature in July 2006 and revised in 2018. The statutory provisions allow natural gas public utilities to recover costs for infrastructure system investments through a monthly customer surcharge as long as the infrastructure investments do not increase revenue by directly connecting the infrastructure system to new customers.⁴ In order to be eligible for GSRS recovery, the infrastructure investments must also meet at least one of the five criteria listed in the definition of Natural Gas Utility Plant Projects found in K.S.A. 66-2202(f). Primarily, these criteria include projects extending the useful life of pipeline system components, projects for system security, and facility relocations due to public works projects, such as road improvement.

In its review of the Application, the Commission is required to confirm that the included replacement projects meet the provisions of the Act.⁵ The Commission is also charged with the obligation of confirming that the proposed surcharge has been properly calculated and is based solely on the projects that are eligible infrastructure investments.⁶ To make the determination of recommending a given project for inclusion in the GSRS, Staff reviews the project descriptions to ensure the replaced facilities do not support increased revenues by connecting to new customers. That is to say, the investments allowed for GSRS recovery must only support gas delivery to existing customers. Additionally, the projects considered for GSRS recovery must satisfy at least one of the five criteria included in the definition of a Natural Gas Utility Plant Project as defined in K.S.A. 66-2202(f). Projects satisfying the conditions are then considered an infrastructure investment eligible for the recovery of costs. The five eligibility criteria are listed as follows:⁷

- 1) Pipeline system components installed to replace, upgrade or modernize obsolete facilities;⁸
- 2) Projects extending the useful life or enhancing the integrity of pipeline system components, for example, projects undertaken to comply with state or federal safety requirements;
- 3) Facility relocations required due to public works projects;
- 4) System security costs including allocated corporate costs incurred by a natural gas public utility; and
- 5) Investments made in accordance with the utility's safety and risk management programs.

² See K.S.A. 66-2204(b)(2).

³ See K.S.A. 66-2204(b)(3).

⁴ K.S.A. 66-2202(d)(1).

⁵ K.S.A. 66-2204(b)(2).

⁶ *Id.*

⁷ K.S.A. 66-2202(f).

⁸ K.S.A. 66-2202-(f) ("Obsolete facility" means a facility: (1) Comprised of materials that are no longer produced or supported by the manufacturer; (2) that shows signs of physical deterioration; or (3) does not meet current safety codes or industry standards.").

In addition to each project meeting the eligibility criteria, Staff evaluates the GSRS application to ensure it meets the financial criteria prescribed in K.S.A. 66-2203. In this case, Staff evaluates each GSRS Application to ensure the following financial conditions are met:

- The annualized GSRS revenues requested are below the lesser of \$1,000,000 or 0.5% of the natural gas public utility's base revenue level approved by the Commission in the natural gas public utility's most recent general rate proceeding;⁹
- The total annualized GSRS revenues do not exceed 20% of the utility's base revenue level approved by the Commission in the natural gas public utility's most recent general rate proceeding;¹⁰ and
- The utility has had a general rate proceeding decided or dismissed by issuance of a Commission Order within the past 60 months.¹¹

If the GSRS Application satisfies at least one of the five project criteria and all of the financial criteria, the Commission is required to approve the Application.¹²

ANALYSIS:

Pipeline Safety

BHE requested recovery of capital expenditures totaling \$14,178,801 for 176 specific projects and blanket work orders through GSRS in this filing. Of this amount, Staff has determined all projects and dollar amounts are eligible for recovery through the GSRS.

BHE categorized the projects being included in the GSRS filing into two categories: 1) Street Relocation; and 2) Safety Related. The Safety Related can be further divided into two subgroups: the first subgroup consists of 129 specific project locations; and the second subgroup consists of 28 blanket work orders. Staff's analysis of the two categories is as follows:

Street Relocation:

The 19 projects in this group are submitted by BHE as governmentally mandated pipeline relocation projects which have not been reimbursed to the utility. Staff evaluated the street relocation summary request for each relocation. Staff agrees these projects meet the criteria for recovery of capital costs through the GSRS. The capital cost amount associated with this category that Staff considers eligible for recovery is \$695,227.

Safety Related:

For the 157 total Safety Related projects, Staff reviewed the summary of work for each specifically identified project. As part of the review, Staff issued data requests in order to develop a more complete understanding of the decision making process used by BHE to determine GSRS eligibility. The specifically identified projects were performed to meet pipeline safety regulatory requirements and included obsolete equipment replacements.

⁹ K.S.A. 66-2203(a).

¹⁰ K.S.A. 66-2203(a).

¹¹ K.S.A. 66-2203(b).

¹² K.S.A. 66-2204(b)(4).

Specific Projects:

Through discovery, Staff learned the description for Safety Related Project 6 (SR-6) stated the incorrect footage of pipe replaced. The application states 633 feet of pipe was required for an adequate tie-in to replace 363 feet of pipe.¹³ According to BHE's response, the replacement pipe footage is equivalent to the 633 feet of the eliminated pipe.¹⁴ In its review, Staff noted SR-33 and SR-34 contained identical descriptions. After communicating with BHE, Staff learned that the Application's description of SR-34 was incorrect; as a result, BHE updated SR-34's description via a data request.¹⁵ Staff believes the corrected descriptions of SR-6 and SR-34 make them and all the other specifically identified projects eligible for GSRS recovery.

Blanket Work Orders:

BHE listed 28 blanket work orders that contain several smaller projects. Through discovery, Staff learned the description for SR-54 stated the incorrect amount of services replaced in the blanket work order. The correct number of service lines replaced in SR-54 is 20.¹⁶ Although this blanket work order is considered GSRS eligible, Staff determined it is necessary to note this change. Staff considers \$7,903,988 in the blanket work orders as eligible for recovery. Based on Staff's review of BHE's Application and discovery responses, Staff agrees all 157 Safety Related projects are eligible for capital cost recovery through the GSRS.

Staff recommends the Commission find the total cost of \$14,178,801 for all 176 projects to be eligible for capital cost recovery through this GSRS.

Accounting

Staff recommends approval of \$1,373,409 in incremental GSRS revenue to be collected by BHE via the monthly charge. Staff's recommendation results in an overall decrease of \$187 in incremental GSRS revenue as compared to BHE's Application. This decrease is due to an error BHE reported to Staff during the review period which had the cost of a specific project overstated by \$1,918.¹⁷ Staff's adjustment reflects the appropriate adjustments to Accumulated Depreciation, ADIT and Depreciation Expense relating to Capital project being adjusted. Staff performed a further audit of BHE's Application to verify that the surcharge was properly calculated and based solely on the projects included in the Application. Staff obtained work orders and journal entries in support of a random sample of projects included in the Application. Staff's position reduces capital expenditures by \$1,918 and GSRS revenue requested by \$187. This decrease does not affect the monthly surcharge per residential customer requested by BHE in its application,¹⁸ which will remain at \$.74 per month, or \$8.88 annually.¹⁹

RECOMMENDATION:

Staff recommends that the Commission approve Staff's revised GSRS revenue requirement of \$1,373,409, to be collected via the per-customer surcharge amount found in Staff Exhibit 2. Staff

¹³ See BHE Application, at 24.

¹⁴ See Staff Exhibit 4, p. 1.

¹⁵ See Staff Exhibit 4, p. 2.

¹⁶ See Staff Exhibit 4, p. 3.

¹⁷ See Staff Exhibit 3.

¹⁸ BHE Application, Exhibit ALS-6.

¹⁹ See Staff Exhibit. 2.

will ensure that any over or under collection of Commission approved GSRS revenues will be reflected in a future GSRS filing or a future true-up filing.

	New Investment 7/1/21-3/31/22
Gas Plant Original Cost	\$ 14,176,883
LESS: Accumulated Depreciation	<u>(228,166)</u>
Net Gas Plant In Service	\$ 14,405,049
LESS: Accumulated Deferred Income Taxes	<u>452,902</u>
Total GSRS Rate Base	\$ 13,952,147
Carrying Charge	<u>7.7800%</u>
Pre-Tax Required Return	\$ 1,085,477
Depreciation Expense	<u>287,932</u>
GSRS Revenue Requirement	\$ 1,373,409
True-Up of Recoveries	<u>-</u>
Revised GSRS Revenue Requirement	\$ 1,373,409
Previously Authorized GSRS	<u>-</u>
Incremental Increase in GSRS Revenue	\$ 1,373,409
LESS: Statutory Limit Adjustment	<u>-</u>
Incremental GSRS Revenue Request	<u><u>\$ 1,373,409</u></u>

(1) Accumulated Depreciation is a debit balance due to accumulated depreciation associated with retirements, and is therefore an increase to net plant; project additions are relatively new and do not have high accumulated depreciation balances yet to offset the balances on the retirements.

(2) Carrying Charge of 7.78% gross of tax was established in Docket 21-BHCG-418-RTS Stipulation and Agreement.

[illegible]

03/31/22 end of period date

FERC Plant Acct (D) Filter	Eng In Svc Date (F) Filter	# of Mos in Srvc (G) Filter		Original Cost (H) Filter	Associated Retirement Costs (I) Filter	Net Orig Cost Less Retirements (J) Filter		Depr Rate (K) Filter		Annual Depr Expense (L)=(J) X (K) (L) Filter		3/31/2022 Calculated AccumDepr (M) Filter		Accum Depr Less Retirement Costs (N) Filter		3/31/2022 Net Plant for Rate Base (O) Filter		Unit of Prop Adj for Tax (P) Filter		263(A) - Unicap Adj for Tax (Q) Filter		Net Plant for Accum Tax Depr (R) Filter		2021 Tax Depr Rate (S) Filter		2021 Tax Depr (T) Filter		2022 Tax Depr Rate (U) Filter		2022 Tax Depr (V) Filter		Accum Tax Depr (W) Filter		Net Tax Basis (X) Filter
37800	Nov-21		\$	12,230.24	\$ -	12,230.24		2.10%	\$	257	\$	107.01	\$	107	\$	12,123	\$	-	\$	703	\$	11,527		0.037500	\$	432		0.075000	\$	865	\$	1,297	\$	10,230
37800	Nov-21		\$	12,230.27	\$ -	12,230.27		2.10%	\$	257	\$	107.01	\$	107	\$	12,123	\$	-	\$	703	\$	11,527		0.037500	\$	432		0.075000	\$	865	\$	1,297	\$	10,230
37800	Nov-21		\$	12,230.27	\$ -	12,230.27		2.10%	\$	257	\$	107.01	\$	107	\$	12,123	\$	-	\$	703	\$	11,527		0.037500	\$	432		0.075000	\$	865	\$	1,297	\$	10,230
37800	Nov-21		\$	12,230.29	\$ -	12,230.29		2.10%	\$	257	\$	107.02	\$	107	\$	12,123	\$	-	\$	703	\$	11,527		0.037500	\$	432		0.075000	\$	865	\$	1,297	\$	10,230
37800	Nov-21		\$	24,460.52	\$ -	24,460.52		2.10%	\$	514	\$	214.03	\$	214	\$	24,246	\$	-	\$	1,406	\$	23,054		0.037500	\$	865		0.075000	\$	1,729	\$	2,594	\$	20,461
37800	Nov-21		\$	47,003.07	\$ -	47,003.07		2.10%	\$	987	\$	411.28	\$	411	\$	46,592	\$	-	\$	2,702	\$	44,301		0.037500	\$	1,661		0.075000	\$	3,323	\$	4,984	\$	39,317
TOTAL OF PROJECTS			\$	14,615,902	\$ (439,019)	14,176,883			\$	287,932	\$	210,853	\$ (228,166)	\$	14,405,049	\$	-	\$	840,187	\$	15,375,414		\$	475,526		\$	1,051,817	\$	1,527,343	\$	12,248,372			
				1,918																														

Explanations of various columns:

Col F = Date put into service. Retirements show date asset being

Col G = Number of months the project has been in service based

Col H = Amount on BHE's fixed asset system

Col I = Amount of retirement on BHE's fixed asset system

Col J = Original Cost in Col H less Retirement Cost in Col I

Col K = Current depreciation rate in Kansas for applicable plant c

Col L = 12 month amount for depreciation expense calculated on

Col M = Accumulated depreciation calculated on the number of t

Col N = Accumulated depreciation in Col M netted against the re

Col O = Original Cost less retirements in Col J less Accum Depr le

Col P = Unit of Property deduction for tax purposes

Col Q = Deductible costs under section 263(A) regulations

Col R = Net Plant for Accum Tax Depr = Original cost less Col P U:

Col S thru V= Tax depreciation rates for 2021 through 2022 and t

Col W = Accumulated tax depreciation as of 3/31/2022

Col X = Net Tax Basis (Col H - Col P - Col Q - Col W)

Plant for Rate Base \$ 14,405,049

look/Tax Difference \$ (2,156,677)

s Effective Tax Rate 21.000%

ADIT \$ (452,902)

'axes at 03/31/2022 \$ (452,902)

Other Notes:

The Engineering In-Service Year determines when tax depreciati

No projects had CIAC charged against it.

Kansas Corporation Commission Discovery Request

Request No: KCC-3

Company Name	Black Hills Energy
Docket Number	22-BHCG-503-TAR
Request Date	May 24, 2022
Date Information Needed	June 1, 2022
RE: SR-6	

BHCG

Please Provide the Following:

Please explain why 633' of pipe was required for an adequate tie in to replace 363' of pipe in SR-6.

Submitted By: Ashlyn Hefley

Submitted To: Ann Stichler

RESPONSE:

The summary for SR-6 (WO #60138437) incorrectly states that 363' of bare steel main was eliminated. The first sentence should read as follows: "This replacement project eliminated 633' of 2" bare steel main that was installed pre-1950." The eliminated and replacement line both measure 633'.

ATTACHMENTS:

None

If for some reason, the above information cannot be provided by the date requested, please provide a written request for an extension along with an explanation of the reasons for the request.

Verification of Response

I have read the foregoing Data Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentation or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answers) to this Information Request.

Signed: /s/ Ann Stichler

Date: June 1, 2022

Black Hills Response to Staff Data Request 5 (page 9)

	This blanket work order is for the replacement of services and yard lines. These types of projects typically eliminate leaking pipe and require immediate replacement. The 162 replacements included in this filing are from July of 2021 through March of 2022.
SR -33	Main Replacement 1151 Monterey Way - Lawrence (WO #60145216)
	<p>This replacement project eliminated 1397' of 2" Bare Steel main that was installed 1958. Records indicate that two class 2 and one class 3 leaks were repaired on this section of pipe over the past five years.</p> <p>The project starting point was determined by the location of the first known problem area with additional footage required to find an adequate tie-in point. The same process was utilized for the project ending location, taking into consideration the distance between known problem areas. Additional consideration was given to the proximity of any existing coated steel or PE pipe.</p> <p>The line was replaced with 1387' of 2" HDPE pipe and tied into C&W Steel pipe and 2" PE. Repair/Replacement Program points for this segment of line were 440.</p>
SR -34	Main Replacement 1441 Chelsea Pl - Lawrence (WO #60147084)
	<p>This replacement project eliminated 105' of 2" Coated & Wrapped main that was installed in 1972. Records indicate that one class 2 and one class 3 leak was repaired on this section of pipe over the past five years.</p> <p>The project starting point was determined by the location of the first known problem area with additional footage required to find an adequate tie-in point. The same process was utilized for the project ending location, taking into consideration the distance between known problem areas. Additional consideration was given to the proximity of any existing coated steel or PE pipe.</p> <p>The line was replaced with 120' of 2" HDPE pipe and tied into MDPE. Repair/Replacement Program points for this segment of line were 450.</p>
SR -35	Main Replacement 1601 Naismith Dr, KU Phase II - Lawrence (WO #60127428)
	<p>This replacement project eliminated 1500' of 8" Bare Steel and 685' of 6" Bare Steel main that was installed 1956. Records indicate that three class 2 and two class 3 leaks were repaired on this section of pipe over the past five years.</p> <p>The project starting point was determined by the location of the first known problem area with additional footage required to find an adequate tie-in point. The same process was utilized for the project ending location, taking into consideration the distance between known problem areas. Additional consideration was given to the proximity of any existing coated steel or PE pipe.</p> <p>The line was replaced with 1600' of 8" PE pipe and 860' of 6" PE pipe and tied into C&W Steel pipe. Repair/Replacement Program points for this segment of line were 550.</p>
SR -36	District Regulator Station Replacement #31 1530 Naismith - Lawrence (WO #60132411)
	This DRS upgrade eliminated obsolete regulators & reliefs with standard monitor systems. The obsolete regulators had lock up and set point problems and parts are no longer available.
SR -37	Main Replacement 1783 E 1500 Rd - Lawrence (WO #60151722)

Kansas Corporation Commission
Discovery Request

Request No: KCC-13

Company Name Black Hills Energy
Docket Number 22-BHCG-503-TAR
Request Date June 8, 2022
Date Information Needed June 17, 2022
RE: Blanket Service Replacements

BHCG

Please Provide the Following:

SR-11, SR-14, SR-54, and SR-138 each have a very high cost per service line. Please explain the costs for SR-11, SR-14, SR-54, and SR-138 and provide a breakdown of the projects in each blanket work order.

Submitted By: Ashlyn Hefley

Submitted To: Ann Stichler

RESPONSE:

SR-11 Blanket Service Replacement-Ford Co (WO #135194057G241)

For the majority of these services, the main was in a concrete alley or in the street. This resulted in additional costs for concrete removal and repair as well as additional plumbing costs. Please see the attachment for a list of the projects in this blanket work order.

SR-14 Blanket Service Replacement-Meade Co (WO #135194119G241)

These service replacements incurred additional costs for concrete and plumbing due to the location of the main. Please see the attachment for a list of the projects in this blanket work order.

SR-54 Blanket Service Replacement-Stevens Co (WO #135196189G241)

Black Hills found that the count of services for this work order is actually twenty rather than the twelve stated in the summary description. This count revision along with concrete and plumbing costs account for the higher-than-average costs initially noted. Please see the attachment for a list of the projects in this blanket work order.

SR-138 Blanket Service Replacement-Osage Co (WO# 135193139G241)

These services were tied directly into the existing main (no tap) which required the use of special fittings (short stops) to control the flow of gas to safely perform replacements. Please see the attachment for a list of the projects in this blanket work order.

ATTACHMENT:

KCC-13 Blanket Project Lists.pdf

If for some reason, the above information cannot be provided by the date requested, please provide a written request for an extension along with an explanation of the reasons for the request.

Verification of Response

I have read the foregoing Data Request and answer(s) thereto and find answer(s) to be true, accurate, full and complete and contain no material misrepresentation or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answers) to this Information Request.

Signed: /s/ Ann Stichler

Date: June 17, 2022

CERTIFICATE OF SERVICE

22-BHCG-503-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served via electronic service this 7th day of July, 2022, to the following:

DOUGLAS LAW, ASSOCIATE GENERAL COUNSEL
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