

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of Black Hills/Kansas Gas Utility)
Company, LLC, d/b/a Black Hills Energy ("Black)
Hills"), Compliance Filing of its Accelerated Pipe) Docket No. 18-BHCG-319-CPL
Replacement Plan Pursuant to the Commission)
Orders in Docket No. 15-GIMG-343-GIG)

COMPLIANCE FILING

In accordance with the memorandum filed by the Staff of the Corporation Commission of the State of Kansas ("Commission") on December 19, 2018, in Docket No. 15-GIMG-343-GIG, Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy ("Black Hills") submits this report detailing progress made in the preceding year.

I. BACKGROUND

1. On April 23, 2018, Black Hills filed in this docket its *Final Accelerated Pipe Replacement Plan* ("Plan") setting forth (1) a seven-year Phase 1 plan to eliminate all bare steel mains, bare steel service lines, and bare steel yard lines in Class 3/urban locations and a ten-year Phase 2 plan to eliminate all remaining obsolete pipe in Kansas; (2) a plan for increased leak detection of obsolete plastic pipe; and (3) an annual lost and unaccounted for gas ("L&U") report for cities having over 10,000 customers.

2. On December 19, 2018, Staff filed a memorandum in Docket No. 15-GIMG-343-GIG recommending future actions to monitor the utilities' plans, including a requirement for the utilities to file an annual report by March 31 detailing progress made in the preceding year, explaining any deviation from the preceding year's projections, any deviation from initial projections, and revising remaining plan projections. Staff also recommended that utilities include in annual reports an update of parameters similar to those listed in Tables LMH-1 and LMH-2 that were included in the body of Staff's memorandum.

3. Black Hills meets periodically with Staff and the Citizens' Utility Ratepayer Board and typically provides updates on the Plan. Black Hills submits this 2025 annual report as an update to the 2024 report filed on March 28, 2024, and provides 2024 activity and current status based on the prior ten-year Phase I Plan. Since beginning the Accelerated Pipeline Replacement Plan ("ARP") program in 2018, Black Hills has worked diligently to eliminate bare steel lines throughout Kansas. While the prior plan included a Phase I, ten-year urban area replacement plan to be completed by 2027 and a Phase II, fourteen-year rural area replacement plan to be completed by 2041, Black Hills has reevaluated and extended the estimated timeline of completion for both Phase I and Phase II due to several unforeseen challenges.

Over the past six years, Black Hills has experienced significant cost increases in materials, labor, and other incidentals due to inflation. According to the U.S. Bureau of Labor Statistics, the CPI Inflation rate between January 2018 and January 2025 is 28.6%¹. This means that \$100 in materials when the ARP timeline was initially created, now costs the Company over \$128, on average, today. If you compare this against the ARP's annual budget growth rate of 1%, the completion timeline must be adjusted solely to account for this drastic increase in cost of materials.

The delays caused by increased material costs, while the most significant factor, are further compounded by scheduling disruptions due to COVID-19 and Winter Storm Uri. Additionally, Black Hills has acquired additional natural gas systems, adding more miles of bare steel to the replacement plan. Furthermore, increased Federal, State, and City funding for road, water, and sewer improvement projects have affected Black Hills' budget and ability to focus solely on bare steel replacement. The company has directed efforts towards replacing other vintage materials (poorly coated steel, Aldyl-A, PVC) and eliminating low-pressure systems across Kansas to ensure the safe operation of its natural gas systems. Given these factors, Black Hills believes extending the Phase I

¹ https://www.bls.gov/data/inflation_calculator.htm

timeline to 2041 is both reasonable and necessary, with a future completion timeline on Phase II to be determined later.

As with any long-term plan, Black Hills understands that data will continue to improve, acquisitions will take place, and macroeconomics will have an impact as progress is made through the ARP. The timeline and estimates have taken some of those factors into account but could still result in future updates.

II. L&U FILING

4. Black Hills' Plan includes a requirement to file an annual report of L&U for communities of 10,000 or more customers. This will include the communities of Lawrence, Wichita, Dodge City, and Garden City. As in prior years with Staff's agreement, BHE will file the L&U report following the receipt of March data, which is at the beginning of May. Accordingly, Black Hills will file the L&U report by May 21, 2025.

III. LEAK SURVEYS

5. The Staff Memorandum recommended that utilities increase the frequency of the surveys of all plastic pipe to once every three (3) years. As stated in Black Hills' comments to the Staff Memorandum, filed on January 15, 2019, Black Hills currently has a process pursuant to which it surveys its obsolete piping at least once every three (3) years and all other plastic piping at least once every five (5) years. In discussions with Staff, Staff agreed that Black Hills' process meets the intended safety requirements, and that Staff had no objection to Black Hills continuing to survey other-than-obsolete piping once every five (5) years.

IV. REPORTING PLASTIC PIPE FAILURES

6. The Staff Memorandum recommended that utilities report plastic pipe failures (leaks) according to the American Gas Association Plastic Pipe Database Committee ("AGA PPDC") Plastic Pipe Failure Report. Black Hills is a member of the AGA PPDC and reports

accordingly. Black Hills Kansas had zero plastic pipe failures in 2024.

V. ANNUAL COMPLIANCE UPDATE

7. Black Hills began implementing its Accelerated Replacement Plan in July of 2018. As previously stated, the Plan included two phases. The initial seven-year Phase I included the replacement of 22,217 bare steel yard lines, 6,725 bare steel service lines and 139 miles of bare steel main lines in Class 3 or urban areas with a total estimated cost of \$79,016,987. Black Hills revised the total estimated costs to \$88,913,799 in Data Request No. 12 on October 2018, as reflected in the BHE Adjusted Plan on Attachment A. Black Hills revised the total estimated cost of its seven-year Phase I to \$107,400,000 in the 2022 filing of 2021 activity. In the 2023 filing, Black Hills revised its seven-year Phase I to ten years at a total estimated cost of \$129,369,764. In the 2024 filing, Black Hills revised the total Phase I estimated cost to \$123,775,280. For this year's filing, Black Hills has revised the total Phase I estimated cost to \$178,248,779 and, as discussed above, adjusted the completion date out to 2041, which includes the replacement of the remaining 11,767 bare steel yard and service lines and 52.3 miles of bare steel main lines in Class 3 or urban areas.

8. Attachment A provides the current, twenty-four-year Plan as requested in this compliance filing as well as the progress made during 2024.

VI. SAFETY MANAGEMENT SYSTEM

9. Black Hills Corporation ("BHC") continues to progress the voluntary implementation of the Safety Management System ("SMS") as part of our ongoing commitment to safety. An SMS emphasizes our dedication to ensuring the safety of our coworkers, customers, and communities. As a responsible operator of natural gas and electric infrastructure, the implementation of an SMS aligns closely with our core values and strategic priorities. It reflects the utilities' dedication to a proactive approach to identify and mitigate risks, which is fundamental to maintaining a safe working environment and providing reliable service.

10. In 2024, BHC made significant progress identifying gaps through a third-party assessment conducted by the American Petroleum Institute (API) in 2023. The API objectively evaluated the progress of BHC's SMS, to determine the current maturity of the program, and identify opportunities to increase conformance with API RP 1173 making the SMS more effective. The assessment identified several key opportunities for improvement and a start to develop an improvement strategy.

11. As the Safety Management System (SMS) evolves, continuous improvements are made. However, this progression also reveals additional gaps and challenges that may impact the maturity of the SMS program. Below are the key advancements in the SMS for 2024, along with identified gaps that will be addressed:

a. SMS strategy:

- i. BHC utilized the assessment results by creating a listing of opportunities organized by element in the SMS program. A pairwise activity was completed for each element ranking and sorting the different opportunities for improvement.
- ii. A maturity model and roadmap were created to balance plans and monitor progress of the SMS.
- iii. The BHE PSMS Program Manager left the organization for different employment in late 2024. BHE is currently in the hiring process of this position.

b. Element 2 Stakeholder Engagement:

- i. Held the first every organization wide Safety Committee Leadership meeting. Safety committees foster a sense of community and shared responsibility, allowing for collaborative communication across the

company. The communication of our safety strategy to field level employees assists in the alignment and understanding to ensure a smoother implementation of specific safety initiatives and supports bi-directional communication.

c. Element 4 Operational Controls:

- i. Management of Change (MOC) considers risks and defines required approvals for physical changes/equipment, technology, procedural and organizational changes across BHE for applicable assets.
- ii. In June of 2024 BHE rolled out a new robust MOC app due to the SharePoint MOC platform becoming outdated and unsupported. The new app works seamlessly across all devices (Desktop/Tablets/Smart Phones) and makes it easy for users to use. These changes address the new MOC requirements of PHMSA Mega Rule II.
- iii. Administrator roles were added to the new app process.

d. Element 5 Incident Investigation and Lessons Learned:

- i. The element 5 program documentation was reviewed and updated from PSMS to SMS to incorporate all incidents from the entire organization and not just specific to one business unit.
- ii. Updates were made to corrective action tracking program to be inclusive of all findings (PSMS to SMS).
- iii. Corrective actions identified during the mock emergency drill were included into the action tracking program. Keeping findings in one location will assist in prioritization and the communication of these identified program risks.

e. Element 7 Management Review and Continuous Improvement:

- i. The management review process made significant strides forward through the review of multiple elements and approval of the 2024 plans for these elements. The PSMS Strategic Governance Committee, a team of Director-level personnel from across BHC, completed a review of SMS Elements 2, 5, 6, 8, 9 & 10.

f. Element 8 Emergency Preparedness and Response:

- i. The BHE ER Enhancement Team conducted a large-scale simulated exercise on July 24th. This was a comprehensive exercise that included local emergency management agencies, bomb squad unit, LNG supplier and another midstream operator in the planning and participation. The exercise focused on a large customer outage that was caused by physical security and cyber-attacks.
- ii. In Aug of 2024 BHE was part of the planning and execution of a large tabletop drill with 16 other operators that was focused on mutual aid support. This was sponsored by AGA/SGA/MEA.
- iii. BHE completed its first ICS Command Center Trailer. This is a sophisticated rolling office to aid in support for large incidents.
- iv. BHE developed a catalog of practice tabletop drills for regional and local use in 2024. Training and testing of these drills will begin in 2025.
- v. New Power BI ERL app was rolled out for emergency messaging replacing the Share Point version that was becoming outdated and unsupported

g. Element 9 Competency, Awareness, and Training:

- i. A new tapping and stopping training was created and implemented. This specific training addresses risks identified through the incident investigation process. The training provides detailed instruction of specific equipment and provides clear guidance on the task being performed. This experience also gives the attendees much needed practice tapping and stopping in a controlled environment.
- ii. Improvements were made to the new hire training materials and the practical training conducted. Feedback from the attendees and stakeholder groups were utilized to assist.

12. Overall, the SMS strategy has driven substantial improvements in safety management, positioning BHE for continued success in maintaining a safe and effective operational environment. The ongoing commitment to continuous improvement and proactive risk management will ensure that BHE remains at the forefront of safety excellence.

WHEREFORE, Black Hills submits this annual compliance report as requested by the Commission in the 343 Docket.



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STATE OF NEBRASKA,

LANCASTER COUNTY,

Douglas J. Law, of lawful age, being first duly sworn upon oath, deposes and says that he is attorney of the within named applicant, that he has read the above and foregoing compliance filing and the statements therein are true.



/s/ Douglas J. Law

CERTIFICATE OF SERVICE

18-BHCG-319-CPL

I, the undersigned certify that a true and correct copy of the foregoing was served via electronic service this 31st day of March, 2025 to the following:

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/s/ Douglas J. Law
Douglas L. Law

Attachment A

Table 1

ARP Historical Activity

	2018 Activity	2019 Activity	2020 Activity	2021 Activity	2022 Activity	2023 Activity	ARP Status @ 12/31/2023 (10-Year Plan)	2024 Activity	Current BHE ARP Status @ 12/31/2024 (24-Year Plan)
Number of Urban Areas	0	3	7	4	2	5	45	0	45
Miles of Bare Steel Main	20	30	21.4	10.5	9	9	60.3	8	52.3
Planned Repl Rate (Avg Miles/Yr)							13.8		3.1
No. of Bare Steel Service Lines and Yard Lines	1,654	3,192	3,558	2,950	2,342	1,912	13,434	1,667	11,767
Planned Service & Yard Repl Rate (Avg Line/Yr)							3,359		790
Years to Completion Phase 1									
Underground Leaks Per 100 Miles Obsolete	11.9	10.8	13.3	10.5	10.5	8.9		7.6	
Total Project Cost**	\$7.5M**	\$13.5M**	\$13.4M**	\$10.4M**	\$9.1M**	\$8,456,670	\$120,913,094	\$8,010,997	\$178,248,779
Main Replacement (Avg \$/Mile)	\$212,520**	\$237,600**	\$237,600**	\$252,214**	\$272,395**	\$291,462**	\$304,814**	\$314,779	\$314,779
Service Line Replacement (Avg \$/Each)	\$2,000**	\$2,000**	\$2,325**	\$2,641**	\$2,852**	\$3,051	\$3,191**	\$3,295	\$3,295

*Reflects updated information provided in October 2018 in KCC Data Request No. 12

**Estimates based on average costs; BHE Adjusted Plan through 2023 Activity is an 8-year average

Attachment A

Table 2

Total ARP Phase 1 Bare Steel Class 3

Data as of End-of-Year	Annual ARP Budget	Mains Replaced Per Year	Inventory Main Miles Remaining	Main Replacement Cost Per FT	ARP Funding Mains	SL/YL Replaced Per Year	Inventory SL/YL Remaining	SL/YL Replacement Cost Each	ARP Funding SL/YL
2024	\$5,500,000	8	52.3	\$57.73	\$1,650,000	1667	11767	\$3,191.00	\$3,850,000
2025	\$5,555,000	5.1	47.2	\$62.35	\$1,666,500	1128	10638.7	\$3,446.28	\$3,888,500
2026	\$5,610,550	4.7	42.5	\$67.34	\$1,683,165	1055	9583.5	\$3,721.98	\$3,927,385
2027	\$5,666,656	4.4	38.1	\$72.72	\$1,699,997	987	8596.7	\$4,019.74	\$3,966,659
2028	\$5,723,322	4.1	33.9	\$78.54	\$1,716,997	923	7673.9	\$4,341.32	\$4,006,325
2029	\$5,780,555	3.9	30.1	\$84.82	\$1,734,167	863	6810.8	\$4,688.63	\$4,046,389
2030	\$5,838,361	3.6	26.4	\$91.61	\$1,751,508	807	6003.8	\$5,063.72	\$4,086,853
2031	\$5,896,744	3.4	23.1	\$98.94	\$1,769,023	755	5249	\$5,468.81	\$4,127,721
2032	\$5,955,712	3.2	19.9	\$106.85	\$1,786,714	706	4543.1	\$5,906.32	\$4,168,998
2033	\$6,015,269	3	16.9	\$115.40	\$1,804,581	660	3883	\$6,378.82	\$4,210,688
2034	\$6,075,422	2.8	14.2	\$124.63	\$1,822,627	617	3265.7	\$6,889.13	\$4,252,795
2035	\$6,136,176	2.6	11.6	\$134.61	\$1,840,853	577	2688.4	\$7,440.26	\$4,295,323
2036	\$6,197,538	2.4	9.1	\$145.37	\$1,859,261	540	2148.5	\$8,035.48	\$4,338,276
2037	\$6,259,513	2.3	6.9	\$157.00	\$1,877,854	505	1643.6	\$8,678.32	\$4,381,659
2038	\$6,322,108	2.1	4.8	\$169.56	\$1,896,632	472	1171.4	\$9,372.58	\$4,425,476
2039	\$6,385,329	2	2.8	\$183.13	\$1,915,599	442	729.9	\$10,122.39	\$4,469,730
2040	\$6,449,183	1.9	0.9	\$197.78	\$1,934,755	413	316.9	\$10,932.18	\$4,514,428
2041	\$6,513,674	1.7	-0.8	\$213.60	\$1,954,102	386	-69.3	\$11,806.76	\$4,559,572
Total ARP Phase 1 Remaining	\$107,881,112			Total ARP Phase 1 Main Spend Remaining	\$32,364,335			Total ARP Phase 1 SL/YL Spend Remaining	\$75,516,777