

BHCE 2023 Projected Net Revenue Requirement Meeting

October 24, 2022 8:30 AM MDT
Black Hills Colorado Electric, LLC

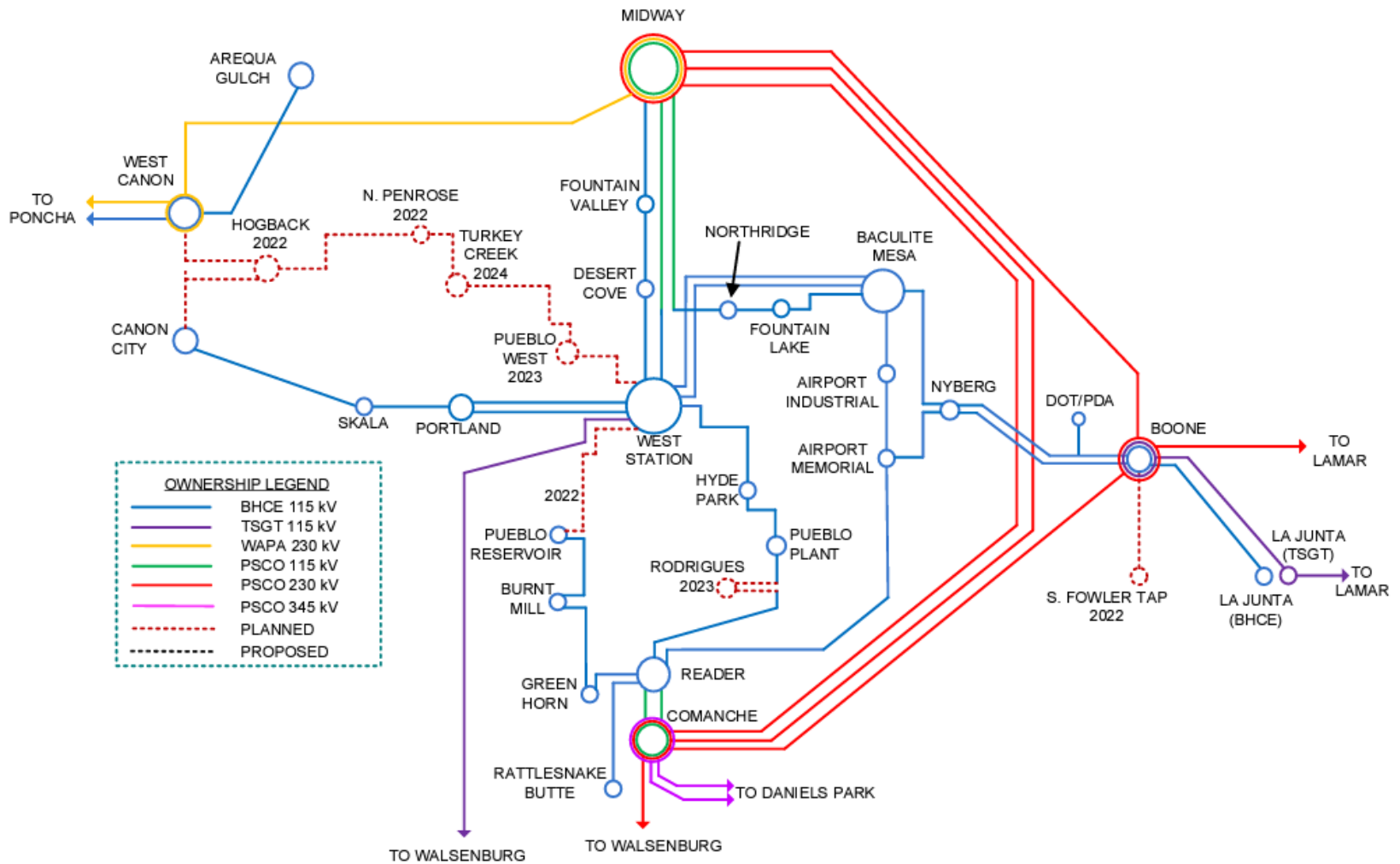




Agenda

- Introductions
- BHCE Transmission System Overview
- Black Hills Colorado Electric Formula Rate Protocols
- Discuss the 2023 Projected Net Revenue Requirement
- Where to Find Information and be Engaged
- Questions & Comments

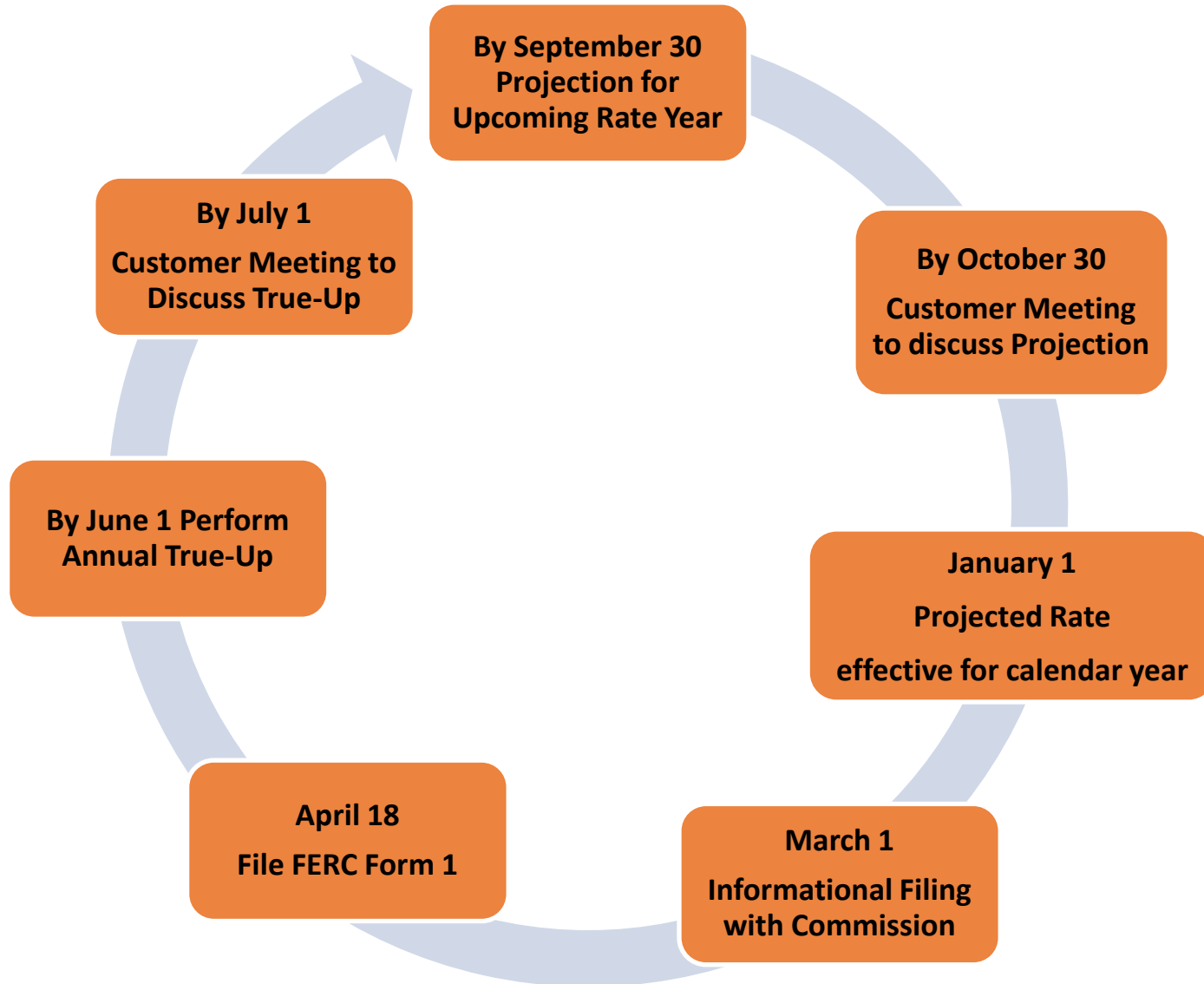
Black Hills Colorado Electric (BHCT)



Stated Rate to Formula Rate Transition

- **On June 24, 2022, Black Hills Colorado Electric, LLC (“Black Hills Colorado Electric”)** made a **Federal Power Act Section 205 rate filing**
 - Transition from stated transmission rates to a transmission formula rate
 - Includes Formula Rate Template and Protocols
 - Modeled after other approved Commission Formula Rates
- **The last full rate case was filed over ten years prior**
 - Prior rate case effective August 16, 2011
 - Minor Modifications for TCJA effective March 21, 2018
 - Due to the passage of time, there were significant transmission plant investments that had not been added to rate base
- **Formula Rates provide benefits to customers:**
 - Avoids large increases driven by the length of time between rate cases
 - More closely aligns rates with current actual costs of service
 - Provides significant transparency to customers on annual basis
 - Includes a clear set of communication protocols and opportunities for customer involvement

Formula Rate Protocols



2023 ATRR Projection File Revision

- Original File posted September 30
 - “2023 BHCOE Attach H Trans Formula Projection – FINAL”
- Corrected File
 - “2023 BHCOE Attach H Trans Formula Projection – REVISED FINAL”
 - Calculates the rates effective 1/1/2023
 - Changes to the Original File:
 - Tab P3-Divisor – corrected Load for January-August 2022
 - Tab A3-ADIT – corrected sign on line 5, Account 190 balances

Worksheet P3
Projected Divisor - Network Transmission Load
Black Hills Colorado Electric, LLC

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Line No.	(a)	(b)	(c)	(d)	(e)	(f)
	Month	Monthly Transmission Network Load as Percentage of the Average Total Network Load of Jan-Aug (Worksheet A6)	Avg Monthly Transmission Network Load for Jan-Aug (Col e, line 2-9)	Estimated Monthly Transmission Network Load for Sep-Dec (Col. b * c)	Actual Load for Jan-Aug	Projected Transmission Network Load
1	Transmission Network Load					
2	January				357,000	357,000
3	February				376,000	376,000
4	March				359,000	359,000
5	April				319,000	319,000
6	May				393,000	393,000
7	June				459,000	459,000
8	July				489,000	489,000
9	August				480,000	480,000
10	September	120.64%	404,000	487,375		487,375
11	October	85.07%	404,000	343,677		343,677
12	November	84.48%	404,000	341,282		341,282
13	December	88.33%	404,000	356,849		356,849
14	Total					4,761,183
15	12-CP					396,765

Worksheet A3
Accumulated Deferred Income Taxes
Black Hills Colorado Electric, LLC

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Line No.	Item	Ref	BOY Balance (Note A) Dec-2020	EOY Balance (Note B) Dec-2021	Average Balance
	(a)	(b)	(c)	(d)	(e)
1					
2	Account No. 281 (enter negative)	272.2.b & 273.2.k	0	0	0
3	Account No. 282 (enter negative)	274.2.b & 275.2.k	(124,109,280)	(130,446,407)	-127,277,844
4	Account No. 283 (enter negative)	276.9.b & 277.9.k	(32,090,758)	(41,588,756)	-36,839,757
5	Account No. 190	234.8.b&c	65,469,261	74,956,049	70,212,655

Accumulated Deferred Income Taxes (“ADIT”)

- *As Filed* 2022 Projection to 2023 Projection
 - 2023 ADIT - \$(30.6M)
 - 2022 ADIT - \$(61.1M)
 - Difference \$(29.3M) – 2022 Projection filed with deferred tax asset (“DTA”) in account 190 as a rate base reduction (sign flip)
- Corrected 2022 Projection to 2023 Projection
 - 2023 ADIT - \$(30.6M)
 - 2022 ADIT - \$(30.1M)
 - Difference \$(0.5M)
- Sign flip on 2022 DTA in Account 190 also impacted income tax expense
 - 2022 As filed Projection to 2023 Projection \$0.60M income tax expense variance
 - Corrected 2022 Projection - \$0.04M income tax expense variance

Summary of Key Drivers

- The BHCOE 2023 total projected rate base increases \$61,131,907 or 40.59% over the 2022 estimate as filed.
 - The BHCOE 2023 total projected rate base increases \$30,086,294 or 16.56% over the 2022 estimate as re-analyzed.
- The 2023 projected annual rate is \$87.71 kW-Yr, an increase of \$0.67 kW-Yr over the 2022 estimate as filed.
 - The 2023 projected annual rate is a \$6.84/kW-Yr decrease compared to the 2022 estimate as re-analyzed.
- Primary Drivers of Increase from 2022 As-Filed Projection
 - Capital Additions:
 - 2022 - \$25,473,600
 - 2023 - \$45,028,914
 - O&M, Depreciation, Taxes Other than Income, and Income Tax Expenses
 - Primarily increased due to increase in capital additions as noted above and associated property tax increase
 - Offset by Payroll Tax reduction
 - Correction of the sign on account 190 which increases Rate Base



2023 Projected Revenue Requirement

Black Hills Colorado Electric, LLC Attachment H		2023 Projected	2022 Projected As Re-analyzed ⁽¹⁾	2022 Projected As Filed ⁽²⁾
1	Average Transmission Rate Base	\$ 211,726,803	\$ 181,640,509	\$ 150,594,895
2	Weighted Rate of Return	7.49%	7.58%	7.58%
3	Return on Average Rate Base	\$ 15,850,674	\$ 13,764,417	\$ 11,411,832
4	Operating Expenses			
5	Operations & Maintenance	7,782,874	7,389,988	7,389,988
6	Depreciation	5,458,582	4,365,793	4,365,793
7	Taxes Other than Income	3,535,733	3,018,043	3,419,657
8	Total Operating Expenses	16,777,189	14,773,824	15,175,438
9	Income Taxes	3,220,767	3,178,589	2,625,159
10	Total Revenue Requirement	35,848,630	31,716,831	29,212,429
11	Revenue Credits	(1,046,600)	(186,169)	(186,169)
12	True Up from Prior Year	-	-	-
13	Net Annual Revenue Requirements	\$ 34,802,030	\$ 31,530,661	\$ 29,026,260
14	Divisor	396,765	333,471	333,471
15	Rate (\$/kW-Yr)	\$ 87.71	\$ 94.55	\$ 87.04
⁽¹⁾ Re-analyzed BHCOE-206, updated for 2020 Payroll Tax expense and corrected sign on account 190.				
⁽²⁾ Amounts from BHCOE-206, implemented September 1, 2022 subject to refund.				

Implementation of Order 864 Compliance for 2023 Projection: Excess Deferred Income Taxes (“EDIT”)

- One-time refund of non-protected EDIT is proposed to be handled outside of 2023 Formula rate projection
- The balance of non-protected EDIT is removed from A3.1-EDIT-DDIT
- One-time refund of protected EDIT includes ARAM amortization through 2021
- 2023 Projection includes protected EDIT amortization as a reduction to income tax expense

Excluded Plant

- File: Supporting Workpapers – Plant Excluded – 12.2021
 - <http://www.oatioasis.com/bhct>
 - folder: BHCT OATT>ATRR Projected Net Revenue Requirement>2023
- Actual Attachment H, Page 4
 - Line 2: Transmission Plant Excluded from Wholesale Rates
 - Plant not serving a transmission function, including any 69kV plant recorded in Transmission accounts and plant serving a distribution function

Black Hills Colorado Electric, LLC			
Transmission Plant Excluded from Wholesale Rates - For the 12 Months Ended 12/31/2021 (Actual Attachment H Page 4, Line 2)			
Row Labels	Sum of accum_cost	Sum of allo_res	Sum of NBV
215 (T) Hyde Park- West Station	21,357.66	1,848.10	19,509.56
Cable, Oh-Duplex 6 & Sma: 0842070000	45.54	10.89	34.65
Pole, Wood, 45': 6161450000	21,312.12	1,837.21	19,474.91
WPC Sub 40673 RATTLESNAKE BUTTE SUB	26,854.22	5,567.42	21,286.80
Arrester - 0-10,000 Volts: 0210100000	2,695.44	558.82	2,136.62
Breaker, 13.8 KV: 6212115014	24,158.78	5,008.60	19,150.18
Grand Total	11,555,308.68	2,162,014.38	9,393,294.30

- Line 3: Transmission Plant Included in OATT Ancillary Services and/or GSUs

Black Hills Colorado Electric, LLC			
Transmission Plant Excluded from Wholesale Rates - For the 12 Months Ended 12/31/2021 (Actual Attachment H Page 4, Line 3)			
Sum of accum_cost	Column Labels		
Row Labels	135301 - Ele Trans	Sub-Stn Eq	GSU Grand Total
BHCOE PAGES UNIT 1			
PAGS 1-Generator Step Up Transformer (GSU) sn P186003		2,492,412.94	2,492,412.94
SHARED - PAGS 1 Concrete Pad for Spare Generator Step-Up Transformer (GSU)		49,853.55	49,853.55
BHCOE PAGES UNIT 2			
PAGS 2-Generator Step Up Transformer (GSU) sn P186004		2,492,412.90	2,492,412.90
SHARED - PAGS 2 Concrete Pad for Spare Generator Step-Up Transformer (GSU)		49,853.57	49,853.57
COE ELEC GEN-BUSCH RANCH WIND PRJCT			
GENERATOR STEP UP TRANSFORMER (GSU)		308,060.51	308,060.51
COE ELEC GEN-PAGS UNIT # 3			
Generator Step-Up Transformer (GSU) sn 186133		2,655,926.72	2,655,926.72
WPC Unit Pueblo Indust Park Diesel			
10/12.5MVA, 115/4.16KV, ASEA		175,000.01	175,000.01
CONCRETE PAD AND CURBS		19,999.98	19,999.98
Grand Total		8,243,520.18	8,243,520.18

BHCT OATT
• BHCT OATT
• Regional Transmission Service
• WestConnect
1. BHCE WestConnect Participation Filing
2. Update Transmission Rates Effective 8-16-2011
3. Updated Transmission Rates Effective 8-1-2016
4. Updated Transmission Rates Effective 11-1-2018
5. BHCE Order No. 881 Compliance Filing
Formula Rate 2022
ATRR Projected Net Revenue Requirement
2023
2023 BHCOE Attach H Trans Formula Projec
2023 BHCOE Attach H Trans Formula Projec
Supporting Workpapers - Capital Structure
Supporting Workpapers - Plant Excluded - 1



Modifications to FERC Form 1 data

- Black Hills calculated the 2023 Projection with the following modifications to data from the FERC Form 1:
 - Correction of error: 2021 Payroll Taxes were re-analyzed and determined to be \$1,463,942 rather than \$0 as reported in Form 1. This correction results in an increase to the formula rate.
 - Plant in Service balances by Functional categories were evaluated to ensure Asset Retirement Obligations were excluded from rate base.
 - Dec 2020: FERC Form 1 functional category totals including ARO
 - Production is understated by \$7,184,935
 - General is overstated by \$7,184,935
 - No impact to formula rate, since ARO is removed in calculation of rate base
 - Dec 2021: FERC Form 1 functional category totals including ARO
 - Production is understated by \$1,957,926 (no impact to rates as NA allocator is applied)
 - General is overstated by \$7,184,935
 - No impact to formula rate, since ARO is removed in calculation of rate base



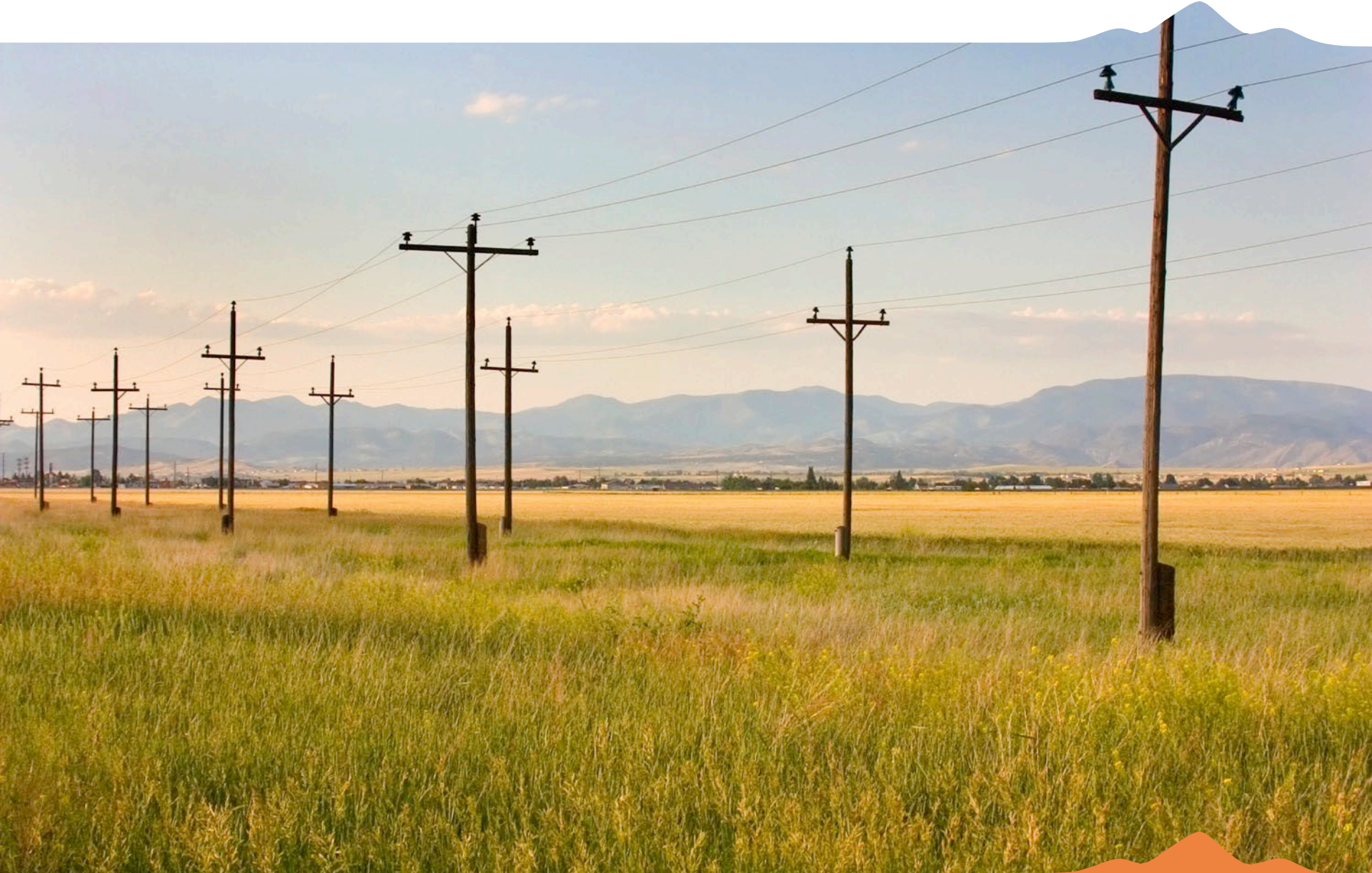
How to be Engaged

We invite our transmission customers to sign up to receive notices related to the Projected Net Revenue Requirement and Annual True-Up. A notification will be sent by email whenever there is an update. These notifications are also posted on our OASIS site. <https://www.oasis.oati.com/BHCT/index.html>

- To sign up for the notices go to our website www.blackhillsenergy.com. On the top left click on 3 orange lines then *Our company*. Next under FERC & Transmission Rates click on *Learn More* then under *Black Hills Colorado Electric* click on *Learn More*. At the top click on *Sign up for notices*. Key in your email address, name and click *Subscribe*.
- If you have any questions please contact us on our transmission line at 605-721-2220 or email Transmissionservice@blackhillscorp.com.



Questions





Comments / Suggestions

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