

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

Proceeding No. 21A - ___ G

IN THE MATTER OF THE VERIFIED APPLICATION OF BLACK HILLS COLORADO GAS, INC. FOR APPROVAL TO RECOVER GAS COSTS ASSOCIATED WITH THE FEBRUARY EXTREME COLD WEATHER EVENT

VERIFIED APPLICATION

Black Hills Colorado Gas, Inc., d/b/a Black Hills Energy (“BHCG,” “Black Hills,” or the “Company”), by its undersigned attorneys, and pursuant to Rules 1303 and 4002, submits this Verified Application (“Application”) for approval by the Public Utilities Commission of the State of Colorado (“Commission”) to recover the gas commodity purchase costs associated with the extreme weather and natural gas market event that occurred across the United States in February of 2021, and particularly from February 13-17, 2021 (the “February Event”).

During the February Event, unprecedented weather and natural gas conditions took place across the country, causing widespread utility outages and skyrocketing prices for natural gas. The Company was successful in withstanding the February Event, providing safe and reliable gas service that its customers’ health and wellbeing depends upon. Despite the unparalleled turmoil in the natural gas market, the Company’s strategic approaches to procuring natural gas ensured it could obtain sufficient supply to keep customers warm. Similar to other Colorado utilities, the February Event required the Company to purchase natural gas to serve its customers at very high prices. The Company has no control over the market price for natural gas. It purchases this gas in a prudent manner to ensure a continued supply of fuel to provide gas service. The Company

does not profit from the gas it purchases. The Company's diversified approach to purchasing gas supplies provided considerable protections against the volatile natural gas market and saved customers approximately \$67.8 million. The Company respectfully requests the Commission approve its recovery of extraordinary natural gas costs from the February Event.

BHCG is submitting with this Application the following Direct Testimonies:

- Mr. Michael J. Harrington, Director - Regulatory & Finance, who introduces the other witnesses, provides the policy and factual background to the February Event, discusses the specifics of the Company's cost recovery request, addresses communication efforts undertaken, discusses issues related to management review, provides relevant Commission precedent, and requests necessary waivers/variances for approval of the gas cost recovery.
- Mr. Jay Bauer, Senior Manager of Gas Supply Services, who provides information on how the Company plans its natural gas supply purchases and how BHCG implemented this plan, consistent with industry best practices, to purchase sufficient gas supplies and ensure reliable service for the Company's natural gas customers during the February Event.

I. BACKGROUND

1. During the middle of February 2021, much of the United States experienced bitterly cold weather. This cold weather led to the freezing of natural gas wells, production, and processing facilities, especially in the midcontinent region. The freeze off of natural gas facilities caused a major reduction in the nation's gas supplies. As gas supplies decreased, the cold weather simultaneously increased customer demand for gas to keep their homes warm and to keep their lights on. In fact, on February 14, BHCG experienced a new system peak demand day. The weather event was so extreme that at one point every Black Hills Energy customer—from western Wyoming to northeastern Arkansas—concurrently endured below zero temperatures. The February Event caused utility outages across the country, including in Texas, in portions of the Southwest Power Pool, and in portions of the Midcontinent Independent System Operator. The combination of these factors severely impacted the price of natural gas that is delivered through interstate pipelines, and that is priced based on applicable market indices.

2. The price for natural gas in Colorado rose to unprecedented levels. The level of this price spike was not foreseeable. The price spike impacted the cost of natural gas purchased by Colorado utilities to provide electric and natural gas retail services. Black Hills worked diligently and around the clock to procure natural gas necessary to maintain reliable service. Black Hills was able to avoid a wide-scale service outage to customers. Such an outage could have detrimentally impacted the safety and wellbeing of customers. To maintain service, Black Hills prudently contracted for natural gas supplies. These supplies were obtained at market-set prices. Because the natural gas market spiked to unprecedented levels, Black Hills was forced to pay natural gas suppliers extraordinarily high prices for the gas. Nevertheless, due to its diversified approach to purchasing gas supplies, the Company saved customers approximately \$67.8 million.

3. The Commission rapidly responded to the February Event. On February 17, 2021, the Commission issued Decision No. C21-0087, opening an investigatory proceeding (Proceeding No. 21I-0076EG) to collect information from regulated utilities on the impacts of the February Event.¹ On March 23, 2021, in Decision No. C21-0179, the Commission also opened a miscellaneous proceeding (Proceeding No. 21M-0130EG) to consider the appropriate processes for the regulated utilities to recover the costs associated with the February Event. Decision No. C21-0179 directed the regulated utilities to not recover the extraordinary costs of the February Event through their existing rate mechanisms.²

4. On March 8, 2021, in Proceeding No. 21I-0076EG, the Company submitted a joint report for both its electric and gas utilities in Colorado on its preliminary information on the impacts of the February Event.³

5. On March 12, 2021, in Proceeding No. 21I-0076EG, the Commission issued Decision No. C21-0149, seeking additional information on certain “follow-up” items from the preliminary February Event reports submitted by the Colorado regulated utilities. On March 19, Black Hills provided its response with the requested additional information.

6. On April 16, 2021, in Proceeding No. 21I-0076EG, the Commission issued Decision No. C21-0226-I, requiring certain regulated utilities to provide additional and supplemented public information on the impacts of the February Event. On May 3, 2021, Black Hills submitted the required information.

¹ On February 23, 2021, the Commission issued Decision No. C21-0101, supplementing its requests for certain information from the regulated utilities.

² Decision No. C21-0179 at ¶ 14.

³ Also on March 8, 2021, the Company submitted to the Commission notice of certain corrections to its joint report.

7. On April 30, 2021, in Proceeding No. 21M-0130EG, the Commission issued Decision No. C21-0261. In this decision, the Commission directed the regulated utilities to file applications that “propose discrete methods for the recovery of the extraordinary costs associated with the February extreme weather through rates.”⁴ The Commission stated that the Company should file separate applications for its electric and gas utilities.⁵ The Commission explained that each application shall address nine specific information requests, as well as three separate scenarios for cost recovery.⁶

II. REQUEST TO RECOVER EXTRAORDINARY GAS COSTS

8. In compliance with Decision No. C21-0261, BHCG submits this application for recovery of the extraordinary gas costs that occurred during the February Event. Company Witness Mr. Harrington explains that it is appropriate to consider the February Event as occurring from February 13 through February 17. The market price for natural gas during these days was extraordinary, eclipsing by a wide margin elevated natural gas prices experienced during the 2014 polar vortex event. From February 13-17, Mr. Harrington explains the Company incurred a total cost of natural gas of \$75,692,864. Of this amount, and based on several repricing scenarios, Mr. Harrington provides that the incremental and extraordinary costs related to the February Event total \$72,666,626.

⁴ Decision No. C21-0261 at ¶ 28.

⁵ *Id.* at ¶ 30.

⁶ *Id.* at ¶¶ 31-32.

9. Mr. Harrington provides for informational purposes seven different scenarios for the treatment of the extraordinary costs, including with associated bill impacts. Of these scenarios, the Company proposes different treatment for its GCA regions. For the Central and North/Southwest GCA regions, the Company proposes a three-year amortization period with a carrying cost tied to the Company's short and long-term cost of debt. For the Western Slope GCA region, the Company proposes a one-year amortization period with a carrying cost that is based on the Company's short-term cost of debt. These carrying costs for the different GCA regions match the length of their amortization periods.

10. Mr. Harrington proposes recovery of the extraordinary costs from the February Event through a "Extraordinary Cost Recovery Rider." This new rate mechanism will ensure that the extraordinary costs are not recovered through the Company's existing Gas Cost Adjustment ("GCA"). The Extraordinary Cost Recovery Rider has a rate design that mirrors the GCA. The Company proposes to begin cost recovery through the Extraordinary Cost Recovery Rider beginning on November 1, 2021.

III. REQUESTED APPROVALS

11. Black Hills respectfully requests the Commission approve the Company's Application, including the following:

- Approve the February Event extraordinary cost amount;
- Approve the proposed three-year amortization period of a regulatory asset for the Central and North/Southwest GCA Regions and a one-year amortization period of a regulatory asset from the Western Slope GCA region;

- Approve carrying costs on the February Event regulatory assets for the Central and North/Southwest GCA regions based on the Company’s short and long-term costs of debt, and for the Western Slope GCA region based on the Company’s short-term cost of debt;
- Approve the new “Extraordinary Cost Recovery Rider;”
- Approve the proposed effective date of the new line item surcharge of November 1, 2021;
- Approve the revisions to the GCA Tariff provided in Attachment MJH-3 (redline); and
- Approve waivers and variances as appropriate for the GCA tariff and GCA rules as necessary.

IV. WAIVERS AND VARIANCES

12. The Company’s Application proposed to recover the extraordinary gas costs stemming from the February Event outside the normal course of the GCA. Black Hills requests waivers and variances as necessary of the Commission’s rule requirements and the Company’s GCA tariff to implement the Extraordinary Cost Recovery Rider and recover through it the extraordinary costs from the February Event. There is good cause for any such waivers/variances as the Company’s Application and its cost recovery proposal are made in compliance with the Commission’s directives, including in Decision No. C21-0261.

V. INFORMATION REQUIRED BY RULES 4002(b) AND 4002(c)

1. Name and Address of Applicant. The Applicant is Black Hills Colorado Gas, Inc. d/b/a Black Hills Energy. BHCG's principal office for natural gas operations in Colorado is located at 7060 Alegre Street, Fountain, CO 80817.

2. Name Under Which Applicant Will Provide Service. Black Hills Colorado Gas, Inc. provides service under Black Hills Energy. Black Hills Energy is its registered trade name on file with the Colorado Secretary of State's office.

3. Representatives to Whom Inquiries Concerning the Verified Application Should Be Made. In addition to the undersigned counsel, all inquiries regarding this Application should be directed to:

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4. Acknowledgement. BHCG has read, and agrees to abide by, the provisions of subparagraphs (b)(IV) through (VI) and (b)(XI) (A) through (C) of Commission Rule 4002.

5. Description of Existing Operations and General Colorado Service Area. The Company provides natural gas public utility services in numerous areas throughout the State of Colorado. The Company has approximately 180,000 residential customers and 15,000 commercial or other nonresidential customers in its Colorado service area. BHCG has operations that are divided into three Base Rate Areas in Colorado. A full listing of the Company's existing operations and service areas are set forth in BHCG's tariffs on file with the Commission.

6. Colorado Specific Financial Information. Not applicable as the Application is filed pursuant to Rule 4002(a)(XIV).

7. Location of Hearing. If this application is set for hearing, BHCG prefers that the hearing be held at the Commission's offices in Denver, Colorado.

8. Attestation. An affidavit signed by an authorized representative of BHCG verifying that the contents of the Application are true, accurate, and correct to the best of his knowledge is attached hereto. The Verification contains the name, title, and the complete address of the affiant, as required by Commission rules.

9. Information Required by Rules 1310(a) and 4002(c). BHCG hereby incorporates by reference the information maintained in Repository Proceeding No. 06M-525EG. The most current information was filed with the Commission on February 2, 2021 and officer and director information was updated on March 24, 2021. The information on file in that docket is correct as of the date of this Application.

VI. REQUESTED RELIEF

WHEREFORE, BHCG respectfully requests that the Commission: (a) deem this Application complete; (b) enter an order approving the proposed recovery of the extraordinary gas costs from the February Event, including the specific approvals outlined above; and (c) to the extent necessary or appropriate, grant such waivers, conditions, approvals or such other and further relief as it deems appropriate, consistent with this Application.

Date: May 18, 2021

Respectfully submitted,

By: /s/ Tyler E. Mansholt
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**ATTORNEYS FOR BLACK HILLS
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HILLS ENERGY**

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Verification

State of Colorado)
) SS.
City and County of Denver)

I, Michael J. Harrington, being duly sworn, do hereby depose and state that I am Director - Regulatory & Finance for Black Hills; that I have read the foregoing Verified Application; that I am authorized to act on behalf of Black Hills; and that all statements made in the Verified Application are true and complete to the best of my knowledge.


Michael J. Harrington

Subscribed and sworn to before me this 17th day of May, 2021.


Notary Public

ELAINE D HEGLER
Notary Public
State of Colorado
Notary ID # 19984031852
My Commission Expires 11-17-2022