Black Hills Energy
Ready

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February 25, 2022

The Honorable Kimberly Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington DC, 20246

RE: *Cheyenne Light, Fuel and Power Company*
Docket No. ER-22____000
2022 Annual Formula Rate Update Informational Filing

Dear Secretary Bose:

Cheyenne Light, Fuel and Power Company ("Cheyenne Light" or the "Company") hereby submits the annual informational filing ("Informational Filing") required by Section V of its formula rate protocols, which are set forth in Attachment H of its Open Access Transmission Tariff ("OATT"). This Informational Filing includes information relating to Cheyenne Light's projected net revenue requirement, which will be used to recover its Annual Transmission Revenue Requirement ("ATRR"), effective January 1, 2022. Cheyenne Light's projected net revenue requirement for 2022 is based on actual cost data for 2020 and estimated cost data for 2022. In addition, this Informational Filing includes data and information relating to Cheyenne Light's most recent annual true-up of its ATRR and resulting transmission rates. The annual true-up was performed in May of 2021 and covered rate year 2020.

I. COMMUNICATIONS

Please direct all communications and correspondence in this proceeding to the individual listed below:

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II. INFORMATIONAL FILING REQUIREMENTS

Section V of Cheyenne Light's protocols provides that, by March 1 of each year, Cheyenne Light shall submit to the Commission an Informational Filing relating to its projected net revenue requirement and annual true-up including the postings required by Section II and IV of the Protocols and which occurred during the prior year. Section V further provides that the Informational Filing is to include information reasonably necessary to determine: (1) that input data under the formula rate are properly recorded in any underlying workpapers; (2) that Cheyenne Light has properly applied the formula rate and its protocols; (3) the accuracy of data and the consistency with the formula rate of the net revenue requirement and rates under review; (4) the extent of accounting changes that affect formula rate inputs; and (5) the reasonableness of projected costs. The protocols also require Cheyenne Light to submit, in its Informational Filing, the formula rate template and underlying workpapers in native format, fully populated, and with formulas intact. Cheyenne Light is fulfilling these tariff obligations by providing the attachments, narrative descriptions, and files described in this transmittal letter.

A. Attachments

In accordance with the requirements under Section V of its Attachment H protocols, Cheyenne Light provides the following attachments with its Informational Filing.

- This Transmittal Letter;
- 2022 CLFP Attach H Trans Formula Projection.xlsx;
- 2020 CLFP Attach H Trans Formula Rate True Up.xlsx;
- CLFP Informational Cost Allocation Information.pdf.[1]

B. Corrections, Adjustments, Accounting Changes and Challenges

Through the Informational Filing, Cheyenne Light describes any corrections, adjustments, or accounting changes made during the periods relevant to the information reported.

[1] Cheyenne Light's protocols require it to provide a description of the methodologies used to allocate and directly assign costs between Cheyenne Light and its affiliates. Cheyenne Light must also identify the magnitude of such costs that have been allocated or directly assigned to Cheyenne Light by any affiliates. *See* Cheyenne Light OATT, Attachment H Section V. The information in "CLFP Informational Cost Allocation Information.pdf" was sourced from the Company's General Ledger system and identifies costs allocated to Cheyenne Light's Business Unit.

Cheyenne Light has identified two accounting changes that would have impacted the 2020 FERC Form 1 Information, which constitutes part of the data set that it used for the formula rate true up covering rate year 2020 and for the 2022 projected net revenue requirement.

The first of these changes involved a change in the method the Company accounts for pension benefits and particularly the net periodic benefit cost for pension. Prior to the change, the Company used a calculated value for determining market-related value of plan assets which amortized the effects of gains and losses over a five-year period. Effective with the accounting change, the Company continued to use a calculated value for the return-seeking assets (equities) in the portfolio but changed to a fair value calculation for the liability-hedging assets (fixed income). The business unit impact for Cheyenne Light was an increase of roughly $4,239 in net income. Because this was the net income impact prior to any allocation through the formula rate allocators to isolate the impact on the transmission function, the impact on the transmission formula rate function would have been much smaller.

The second accounting change involved classification of certain assets and particularly the classification of generator step up units ("GSUs"). In July of 2020, the Company went through an effort to review and reclassify assets (where appropriate) between its transmission and distribution function. The purpose of this effort was to ensure that assets were being appropriately accounted for consistent with the Uniform System of Accounts and that affiliated electric public utility operating companies within the Black Hills Corporation corporate family were acting consistently when it came to the classification of certain types of assets. During the effort, a decision was made that it was appropriate to clarify internally that GSUs should be classified as transmission, but then should be excluded from the transmission formula rate. Cheyenne Light recently realized that it failed to execute on the exclusion and thus in some instances GSUs were inadvertently included in the transmission plant in the true-up performed in May of 2021 covering rate year 2020. If it determines that its inadvertent inclusion of this plant negatively impacted customers, Cheyenne Light will make appropriate refunds to customers through its upcoming true-up process.

Finally, Section V of the Protocols requires Cheyenne Light to describe any aspect of the formula rate, or its inputs, that is the subject of dispute under the informal or formal challenge procedures available under its Attachment H formula rate protocols. At the time of this filing, no aspect of Cheyenne Light's formula rate, its 2022 projected net revenue requirement, or its 2021 annual true-up is the subject of a dispute under the informal or formal challenge procedures set forth in Section VII of the Protocols.

C. Cost Allocation Information

Section V of the protocols further requires that Cheyenne Light include, in its Informational Filing, a description of the methodologies used to allocate and directly assign costs between Cheyenne Light and its affiliates. Cheyenne Light must also identify the magnitude of such costs that have been allocated or directly assigned to Cheyenne Light.

In 2020 (the data year used in population of the 2022 projected net revenue requirement and applicable to the most recent annual true-up), Cheyenne Light and its affiliates have received allocated or directly assigned costs from Black Hills Service Company, LLC ("BHSC"). Costs from BHSC could be directly charged to Cheyenne Light, or indirectly allocated when the cost was not associated with an activity specifically undertaken on behalf of Cheyenne Light. Stated similarly, direct costs are costs that are specifically associated with and assignable to Cheyenne Light. Indirect costs are costs that benefit or support more than one Black Hills Corporation subsidiary and are allocated among subsidiaries using one of several pre-defined allocation ratios. Those pre-defined allocation ratios are described in BHSC's Cost Allocation Manual or "CAM." The potential allocation ratios available for use in 2020 included:

- **Asset Cost Ratio** – Based on the net cost of assets.
- **Gross Margin Ratio** – Based on the total gross margin.
- **Payroll Dollars Ratio** – Based on the total direct payroll dollars.
- **Blended Ratio** – A composite ratio comprised of an average of the Asset Cost Ratio, the Payroll Dollars Ratio, and the Gross Margin Ratio. These ratios are equally weighted. This ratio is sometimes referred to as the 3-factor allocation ratio.
- **Employee Ratio** – Based on the number of employees.
- **Generation Capacity Ratio** – Based on the power generation facility's capacity.
- **Square Footage Ratio** – The total square footage of a given facility.

Each BHSC department is assigned one of these allocation ratios. All indirect costs of that department are then allocated using the assigned ratio. When determining which allocation ratio should be assigned to each department, a ratio is selected based on the specific cost driver of that department. For instance, the expenses incurred by a Human Resources department are primarily related to their support of all company employees. In this example, the cost driver for the Human Resources department indirect costs is employees. Therefore, their indirect costs will be allocated based upon the Employee Ratio.

The protocols also require a disclosure relating to the magnitude of costs that have been allocated or directly assigned between Cheyenne Light and its affiliates, by service category or function. In order to satisfy this requirement, Cheyenne Light has attached a document titled "CLFP Informational Cost Allocation Information." This document was sourced from the Company's General Ledger and shows cost allocated to Cheyenne Light during the relevant data year (2020).

D. Additional Reporting: Prepayments and Taxes Other than Income Taxes

Cheyenne Light's Attachment H formula rate template includes certain disclosure obligations in the event that certain data enterable fields are populated. Those data enterable fields are included in Actual Attachment H, Note AA (Taxes Other than Income Taxes) and Worksheet 8, Note B (Prepayments).

The only disclosure obligation triggered during the operative reporting period is that relating to new categories of prepayments. At its annual true-up customer meeting which occurred in June of 2021, Cheyenne Light advised its customers that it had identified four new prepaid expense items in Worksheet A8 of its formula rate template. Upon further review, only two of those items were actually newly identified. Those two items are described below together with justification for the choice of allocator. [2]

Prepayment	**Allocator and Justification**
Consulting Deposit Costs	Not Applicable or "NA" These expenses were related to Production and thus the NA allocator was used so no costs were assigned to the transmission formula rate.
Branding prepayment for advertising and promotional expense	Not Applicable or "NA" These expenses were recorded in the A&G accounts but are removed from the ATRR. Consequently, no costs were allocated to the transmission formula rate.

E. Deadlines and Administrative Requirements

The protocols also contain a number of set deadlines and administrative requirements. Cheyenne Light's protocols require it to post its projected net revenue requirement for the following rate year on its website and Cheyenne Light's Open Access Same Time Information System ("OASIS") by September 30 of each year. Further, within ten (10) days

[2] See Cheyenne Light Formula Rate Template Worksheet 8, Note B (describing certain disclosure obligations including upon the inclusion of new prepayment items including justification of the allocator utilized).

of its posting of the projected net revenue requirement, Cheyenne Light is required to provide notice of the posting to interested parties, via an email exploder list.[3] Similarly, Cheyenne Light's protocols require it to post its annual true-up on its website and Cheyenne Light's OASIS by June 1 of each year. Thereafter, within ten (10) days of the posting of its annual true-up, Cheyenne Light is required to provide notice of such postings to interested parties via its email exploder list. Finally, following the posting of its projected net revenue requirement and annual true-up, Cheyenne Light's protocols require it to hold open meetings with interested parties to permit Cheyenne Light to explain and clarify its projected net revenue requirement and/or its annual true-up.

Cheyenne Light has satisfied these deadlines and administrative requirements. The following table summarizes Cheyenne Light's compliance with the specific deadlines and administrative requirements set forth in the Protocols.

Activity	**Due Date**	**Date Activity Completed**
Determine Annual True-Up and Post on Website and OASIS	June 1, 2021	May 27, 2021
Send Notice by email exploder list of the posting of True-Up calculation	June 9, 2021	June 2, 2021
Send notice by email exploder list and post on website and OASIS of Annual True-Up meeting	June 7, 2021	June 2, 2021
Hold Annual True-Up meeting	July 1, 2021	June 11, 2021
Determine Projected Net Revenue Requirement for Rate Year 2022 and Post on Website and OASIS	September 30, 2021	September 28, 2021
Send Notice by email exploder list of the posting of Schedule 1 and Attachment H Projected Rates	October 8, 2021	October 5, 2021
Send Notice by email exploder list and post on website and OASIS of Annual Projected Rate meeting	October 19, 2021	October 12, 2021
Hold Projected Rate Meeting	October 30, 2021	October 27, 2021

[3] OATT, Attachment H §§ II.1-2.

III. SERVICE

In accordance with Section V of its Protocols, Cheyenne Light will provide notice of this Informational Filing via an email exploder list and by posting the docket number assigned to this Informational Filing on its website and the Cheyenne Light OASIS within five days of the filing.

Thank you for your attention to this matter. Please contact the undersigned if you have any questions concerning this Informational Filing.

Respectfully Submitted,

/s/ Catherine M. Sabers
Catherine M. Sabers
Associate General Counsel