BRACEWELL

February 26, 2021

The Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *Cheyenne Light, Fuel and Power Company*
Docket No. ER21-___-000
2021 Annual Formula Rate Update Informational Filing

Dear Secretary Bose:

Cheyenne Light, Fuel and Power Company's ("Cheyenne Light") hereby submits the annual Informational Filing required by Section V of its formula rate protocols 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, 2021. Cheyenne Light's projected net revenue requirement for 2021 is based on actual cost data for 2019 and estimated cost data for 2021. In addition, this Informational Filing includes data and information relating to Cheyenne Light's first annual true-up, which occurred in June of 2020 and applied to rate year 2019.[1]

[1] In December of 2018, Cheyenne Light filed with the Federal Energy Regulatory Commission ("FERC" or "Commission") to transition from fixed, stated transmission rates to a formula rate methodology. *See* Cheyenne Light, Fuel and Power Co., Transmission Formula Rate Template and Protocols, Docket No. ER19-697-000 (filed Dec. 27, 2018) ("Formula Rate Filing"). On February 21, 2019, the Commission accepted Cheyenne Light's formula rate for filing, suspending it for a nominal period, to become effective January 1, 2019 subject to refund, hearing, and settlement judge procedures. *See Cheyenne Light, Fuel and Power Co.*, 166 FERC ¶ 61,121 (2019). At the same time, the Commission instituted a Federal Power Act Section 206 proceeding and consolidated the two proceedings. At the time of Cheyenne Light's 2020 Informational Filing, hearing and settlement procedures continued and the first annual true-up had not yet occurred. The Formula Rate Filing was subsequently resolved via a Commission-approved settlement order issued May 28, 2020. *See Cheyenne Light, Fuel and Power Co.*, 171 FERC ¶61,170 (2020) ("Formula Rate Approval Order").

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I. COMMUNICATIONS

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II. INFORMATIONAL FILING

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 with formulas intact.

A. Attachments

In accordance with the requirements under Section V of the protocols contained in Attachment H of its OATT, Cheyenne Light provides the following:

- This Transmittal Letter;
- 2021 Attach H Trans Formula Projection.xlsx;
- 2019 CLFP Attach H Trans Formula Rate True Up.xlsx;

- BHSC Depreciation Adjustment.xlsx; [2] and
- CLFP Informational Cost Allocation Backup.pdf.[3]

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. Cheyenne Light has not identified any corrections, adjustments, or accounting changes that would have impacted its 2021 projected net revenue requirement.

Cheyenne Light is reporting an adjustment that would have impacted its 2020 annual true-up, which applied to the 2019 rate year. The adjustment stems from commitments made as part of Cheyenne Light's settlement of its Formula Rate Filing. Cheyenne Light originally submitted the Formula Rate Filing in December of 2018. The Formula Rate filing culminated with a Commission-approved settlement on May 28, 2020.[4] Specifically, in its Offer of Settlement filed March 20, 2020, Cheyenne Light committed to true-up its previously filed depreciation/amortization expense, accumulated depreciation/amortization, and accumulated deferred income tax to actuals based on the depreciation and amortization rates set forth in Worksheet A5 of its formula rate template during its annual true-up process. Cheyenne Light also committed to provide an explanation and supporting workpapers to customers during that true-up process.[5] The intent of this settlement provision was to ensure there was no retroactive application of depreciation/amortization rates, before their approval in Docket Nos. ER19-697-001 and ER19-697-002 and to follow the protocols process of sourcing depreciation/amortization expense, accumulated depreciation/amortization and accumulated deferred income tax from the FERC Form 1, subject to a true-up to actuals including the depreciation/amortization rates approved in the Formula Rate Approval Order. Consistent with its commitment, Cheyenne Light undertook this activity as part of its most recent annual true-up and discussed this process at its annual true-up customer meeting. Finally, it posted workpapers illustrating the depreciation/amortization true-up on its OASIS page. Those same workpapers are provided as supporting documentation within the filing.[6]

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[2] This particular attachment relates to the disclosures set forth in Section B, Paragraph 2 of this Transmittal Letter.

[3] The information in *CLFP Informational Cost Allocation Backup* was sourced from the Company's General Ledger system and identifies costs allocated to Cheyenne Light's Business Unit, which costs were further analyzed by product code to differentiate allocations between electric and gas activity.

[4] *Cheyenne Light, Fuel and Power Company*, 171 FERC ¶61,170 (2020).

[5] *See Cheyenne Light, Fuel and Power Company*, Offer of Settlement, Docket Nos. ER19-697-001 and ER19-697-002, Article III, Section 3.4(b) (filed Mar. 20, 2020).

[6] *See attached* BHSC Depreciation Adjustment.xlsx.

Finally, Section V of the Protocols also 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. At the time of this filing, no aspect of Cheyenne Light's formula rate, its 2021 projected net revenue requirement, or its 2020 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 2019 (the data year used in population of the 2021 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 2019 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 process described above is, for the most part, identical to that described in Cheyenne Light's 2020 Informational Filing. There is, however, one distinction. Before 2019, Cheyenne Light could have actually received direct or indirect cost allocations from two service companies BHSC and Black Hills Utility Holdings, Inc ("BHUH"). Effective January 1, 2019, BHUH ceased to function as a centralized service company. All significant service company activities previously performed by BHUH, including employees, were combined with the activities of BHSC. Thus, beginning January 1, 2019 Cheyenne Light only received service company cost allocations from BHSC.

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 Backup*. This document was sourced from the Company's General Ledger shows cost allocated to Cheyenne Light during the relevant data year (2019).[7] Cheyenne Light previously referred to the FERC Form 1 for this information; however it has determined that more complete information can be provided from Company records for two reasons: (1) for 2018 and 2019 the FERC Form 1 included Cheyenne Light as a combined Gas and Electric Utility and (2) there is a $250,000 reportable threshold for FERC Form 1 pages 429 and 429.1.

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

Cheyenne Light's Attachment H formula rate template includes distinct 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, Cheyenne Light advised its customers that it had identified four new prepaid expense items in Worksheet

[7] *See supra* note 3 for additional description as to the source information.

A8 of its formula rate template. Those items are described below together with justification for the choice of allocator.[8]

1. WYGen2 Ground Lease – this item is related to the production function with the underlying expense not included in the development of costs for Attachment H. Therefore, the Not Applicable "NA" designation was chosen to apply none of the costs to the Attachment H rate base.

2. Horse Creek Communication Tower Lease - this item is related to the distribution function with the underlying expense not included in the development of costs for Attachment H. Therefore, the Not Applicable "NA" designation was chosen to apply none of the costs to Attachment H rate base.

3. Harriman Communication Tower Lease - this item is related to the distribution function with the underlying expense not included in the development of costs for Attachment H. Therefore, the Not Applicable "NA" designation was chosen to apply none of the costs to the Attachment H rate base.

4. Prepaid Taxes – This item is related to a refundable advance tax payment to Cheyenne Light's parent company. Since income tax expense is already calculated within the formula rate template, this item has been designated as Not Applicable "NA." None of the costs apply to the Attachment H rate base.

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 Black Hills Energy's website and Cheyenne Light's Open Access Same-Time Information System ("OASIS") by September 30 of each year. Further, within ten (10) days of the 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.[9] Similarly, Cheyenne Light's protocols require it to post its annual true-up on Black Hills Energy's 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

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[8] *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).

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, 2020	June 1, 2020
Send notice by email exploder list the posting of the True-Up calculation	June 9, 2020	June 3, 2020
Send notice by email exploder list and post on website and OASIS of Annual True-Up meeting	June 7, 2020	June 3, 2020
Hold Annual True-Up Meeting	July 1, 2020	June 17, 2020
Determine Projected Net Revenue Requirement for and Post on Website and OASIS	September 30, 2020	September 29, 2020
Send Notice by email exploder list the posting of Attachment H Rates	October 8, 2020	September 30, 2020

[9] OATT, Attachment H §§ II.1-2.

Send notice by email exploder list and post on website and OASIS of Annual Projected Rate Meeting	October 19, 2020	October 5, 2020
Hold Annual Projected Rate Meeting	October 30, 2020	October 22, 2020

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 the Black Hills Energy website and the Cheyenne Light OASIS within five days.

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

Respectfully submitted,

/s/ Blake R. Urban
Blake R. Urban

Counsel to Cheyenne Light, Fuel and Power Company