



### 1. Natural Gas Commodity Portion

- Typically 65 percent to 75 percent of a residential bill, representing what Black Hills Energy pays for the actual commodity.
- Black Hills Energy does not earn a profit on the price of the natural gas commodity; the cost is passed to customers without mark-up.
- Gas costs fluctuate and are impacted by the overall economy and supply and demand.
- We use a portfolio purchasing strategy to manage volatility and remain competitively priced, buying up to 70 percent of our gas supplies throughout the spring and summer in preparation for winter through the use of fixed-price and option contracts, and by placing some gas supplies in storage facilities.

### 2. Base Rate & Customer Charge

- Accounts for about 25 percent to 35 percent of a residential bill
- State regulators approve the recoverable amount of base rate and customer charges. This amount must cover the company's operating costs, system maintenance and improvements, and 24-hour customer service support. The company's profit also is derived from this portion of the bill; this return on investment is not guaranteed and is limited by state regulators. The base rate is a per-therm rate based on usage; the customer charge is a flat fee for providing natural gas service.

## Understanding My Bill

Your monthly natural gas bill may vary from month to month or year to year. There are many factors that can affect your natural gas bill.

### Weather

Cold weather and shorter daylight hours can mean an increase in natural gas usage for heating – both for your furnace and water heater.

### Efficiency of your appliances

Older, less-efficient appliances use more energy. Replacing them with high-efficiency natural gas appliances can significantly reduce your energy costs.

### Living habits

Washing more clothes, taking more baths, or setting the thermostat higher during the winter are all lifestyle habits that can increase your energy use.

### Late payment charges

Bills not paid by the due date will be subject to a late payment fee. (If you are experiencing financial difficulties, please see page 8 on ways to manage your bill.)

If your natural gas bill differs from your neighbors', compare home sizes, layouts and insulation factors. Family size, thermostat settings and the hours spent at home can also cause variations. Contact us if you suspect an error on your bill.

Your bill charges are based on actual or estimated usage. The amount due is calculated by using rate schedules approved by the Kansas Corporation Commission. If you suspect an error on your bill, please call us at **888-890-5554**.

# How rates are set

MONTHS 1-12

**1** Kansas Corporation Commission (KCC) approves service rates.



**2** We invest in our system to meet your energy needs.



MONTHS 13-16

**3** We pay for those investments and customers gain immediate benefits.



**4** We must recover those investments. When necessary, we seek a rate increase.



**5** We take months to compile a case based on the investments and operating costs from a "test year."



MONTH 24

**6** The KCC thoroughly reviews our request and rules within 240 days.



**7** The KCC sets new rates.



New rates don't consider up to two years of investments, higher costs of service and inflation from the test year to implementation. This is termed "regulatory lag."

**8** New rates appear on customer bills.

