

**From:** PUC  
**Sent:** Wednesday, October 01, 2014 9:03 AM  
**To:** [REDACTED]  
**Subject:** BHP Rate Case, EL14-026

Ms. Mutcher:

This is in response to your comments regarding Black Hills Power's request filed with the commission to increase their electric rates.

The commission approved a 6.39 percent rate increase in electrical revenues for BHP in September 2013, resulting in an increase of 5.7 percent for the residential customer class. This was a result of BHP filing a rate increase request in December 2012 requesting a 9.94 percent increase (8.94 percent for the residential customer class). After significant study, the commission agreed with the settlement reached between BHP and commission staff. I encourage you to review the filings in this rate case online, EL12-061: <http://www.puc.sd.gov/Dockets/Electric/2012/e112-061.aspx>

When a utility files a rate case with the commission, the commissioners and staff are obligated by law to thoroughly process the case. We cannot simply reject it outright since we are required to thoroughly investigate and make a just, reasonable decision. This process can take almost a year to complete. Each commissioner, the commission's staff and expert consultants hired by staff will review the entire case or docket separately, along with any intervenors in the case. We will request and review additional data and information from the utility before a decision is rendered.

BHP is required by law to provide safe, reliable service to customers. The utility must ensure the plants it relies upon to generate capacity are sufficient to meet customer demand, while meeting new federal Environmental Protection Agency requirements. BHP's profits do not take away the need for any rate increases. The laws governing regulated utilities include what is known as ring-fencing. This separates the accounting and revenue of the regulated entity, BHP, from the other owned entities within the larger corporate ownership structure, Black Hills Corporation. It essentially prevents an investor-owned utility – in this case, BHP – of being stripped of its profits by shareholders, in this case, BHC's shareholders. The purpose is to retain sufficient funds to operate the utility and reinvest in the system in order to provide safe, reliable service to the utility's customers. I authored and spearheaded the passage of the utility ring-fencing law in South Dakota.

All discussion involving commissioners regarding the case must be available to the public. The commission's work is now done electronically to be time and cost effective, and therefore, anyone can review the majority of the filings in the case online.

It is important to understand the reasons BHP cited when filing this case, which includes investments in plant infrastructure, compliance with federal mandates, and storm recovery costs. The commission is currently processing an Xcel Energy electric rate case, a MidAmerican Energy electric rate case as well as a MidAmerican natural gas rate case. The first two cost-causers have been stated by the utilities for those three cases also.

In 2010 we began receiving numerous rate dockets from natural gas and electric utilities. Mandates from the EPA continue to place greater costs on utilities, such as \$400 million-plus on the Big Stone power plant alone, and in several cases have forced the closure of power plants. We are seeing the effects of legislative requirements and EPA regulations on utility rates throughout the country. Utilities are also replacing aging power plants and infrastructure. These cost-causers affect not only regulated utilities such as BHP, but also rural electric cooperatives and municipal electric systems. Each differs as to generation and distribution systems and the age of these and thus, necessary replacement and maintenance timeframes. However, all must manage such costs to support their systems. These cost-causers affect all of our lives.

As a regulated utility, BHP's rates are set by the commission based on an authorized rate of return. Authorized does not mean guaranteed. The utility is not guaranteed to earn that ROR. The rates are set based on a ROR established by utility debt and equity market rates determined by present market conditions. In the past several years, the commission's approved ROR have been the lowest in the nation for the electric sector.

It is also important to understand that a regulated utility cannot raise funds or borrow funds to build and maintain infrastructure and comply with federal mandates unless it can pay some dividends to shareholders and pay off their debts.

The commission is required by law to allow rates based on a reasonable ROR for the regulated utility sector. This is required by statutes passed by the South Dakota Legislature, and has been upheld by multiple decisions of the South Dakota Supreme Court and the United States Supreme Court. The Supreme Court has ruled that it is unconstitutional according to the takings clause of the Constitution for the commission to set rates based on debt and equity values that are not within the current range of market rates for utility debt and equity securities.

In South Dakota the rates of BHP, Xcel Energy, Montana-Dakota Utilities, Otter Tail Power, NorthWestern Energy and MidAmerican Energy are regulated. These utilities are in a captive rate situation. They are not permitted to charge whatever rates management decides to charge as other businesses do. Because BHP is a monopoly, there is no market to discipline prices as there is in largely unregulated business sectors. One effect of regulation in South Dakota is that a regulated utility's ROR is almost always significantly lower than for unregulated business corporations.

To help you better understand the processing of rate increase requests, a document titled Electric Rate Increase Requests Info Guide is linked to the commission's home page at [www.puc.sd.gov](http://www.puc.sd.gov).

My fellow commissioners and I are consumers too. We have family of several generations affected by utility costs and we understand how rate increases affect all of us. We have a strong desire to keep rates down and to protect citizens against increases. None of us want to raise rates. In fact, we hate to agree to any rate increase.

Thank you for writing to share your concerns. Your comments will be filed in the BHP rate case, docket EL14-026: <http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx> Given your interest, I encourage you to follow along as the case is processed.

Gary Hanson, Chairperson  
South Dakota Public Utilities Commission  
[www.puc.sd.gov](http://www.puc.sd.gov)

-----Original Message-----

From: Sarah Stout [REDACTED]

Sent: Tuesday, September 30, 2014 11:23 PM

To: Fiegen, Kristie

Subject: Reject the Black Hills Power rate request

Commissioner

Chair Hanson and Commissioners Nelson and Fiegen:

I strongly oppose the rate increase by Black Hills Power, and I urge you to deny their request. It is not in the public interest and it is not good for South Dakota. Black Hills Power tried to use this rate increase to make it harder for us to invest in our own electricity generation; it seems they are not making choices in the best interest of South Dakotans.

Black Hills Power should be investing in local energy and creating a more stable future for South Dakota's citizens and rate payers. The company knew coal was going to get more expensive, and now they're risking our future by investing in natural gas, another fossil fuel subject to price increases and further regulation.

Please deny Black Hills Power's rate increase request.

Sarah Stout  
273 Main Street  
Hill City, SD 57745

002025

-----Original Message-----

From: Sarah Stout

To: Gary Hanson

ReplyTo: [REDACTED]

Subject: Reject the Black Hills Power rate request

Sent: Sep 30, 2014 11:22 PM

Chair

Chair Hanson and Commissioners Nelson and Fiegen:

I strongly oppose the rate increase by Black Hills Power, and I urge you to deny their request. It is not in the public interest and it is not good for South Dakota. Black Hills Power tried to use this rate increase to make it harder for us to invest in our own electricity generation; it seems they are not making choices in the best interest of South Dakotans.

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Please deny Black Hills Power's rate increase request.

Sarah Stout

273 Main Street

Hill City, SD 57745

002026

-----Original Message-----

From: Sarah Stout [REDACTED]

Sent: Tuesday, September 30, 2014 11:23 PM

To: Nelson, Chris

Subject: Reject the Black Hills Power rate request

Commissioner

Chair Hanson and Commissioners Nelson and Fiegen:

I strongly oppose the rate increase by Black Hills Power, and I urge you to deny their request. It is not in the public interest and it is not good for South Dakota. Black Hills Power tried to use this rate increase to make it harder for us to invest in our own electricity generation; it seems they are not making choices in the best interest of South Dakotans.

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Please deny Black Hills Power's rate increase request.

Sarah Stout  
273 Main Street  
Hill City, SD 57745

002027

-----Original Message-----

From: Paul Paul [REDACTED]

Sent: Tuesday, September 30, 2014 9:19 PM

To: Fiegen, Kristie

Subject: Reject the Black Hills Power rate request

Commissioner

Chair Hanson and Commissioners Nelson and Fiegen:

BHP is trying to make it hard for people that are producing excess electric energy from solar and wind from putting this back onto the grid. BHP, Basin Electric, and others need to realize that we need to be moving to more renewable energy sources.

Paul Paul  
[REDACTED]

002028

-----Original Message-----

From: Jerry Bloomer [REDACTED]  
Sent: Wednesday, October 01, 2014 9:12 AM  
To: Fiegen, Kristie  
Subject: Reject the Black Hills Power rate request

Commissioner

Chair Hanson and Commissioners Nelson and Fiegen:

I strongly oppose the rate increase by Black Hills Power, and I urge you to deny their request. It is not in the public interest and it is not good for South Dakota. Black Hills Power tried to use this rate increase to make it harder for us to invest in our own electricity generation; it seems they are not making choices in the best interest of South Dakotans.

Black Hills Power should be investing in local energy and creating a more stable future for South Dakota's citizens and rate payers. The company knew coal was going to get more expensive, and now they're risking our future by investing in natural gas, another fossil fuel subject to price increases and further regulation.

Please deny Black Hills Power's rate increase request.

Jerry Bloomer  
[REDACTED]

002029

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002030

**From:** Steve Bauer [redacted]

**Sent:** Sunday, May 04, 2014 4:21:31 PM



**To:** PUC

**Subject:** rate increase for Black Hills Power for October of 2014

**Auto forwarded by a Rule**

Hello!

I have two comments with any of these on going increases in utility rates.

- 1) Why don't they break out the infrastructure charges (Line maintenance, plant construction, plant maintenance etc.) from the rates. This way when/if onsite power generation (solar/wind ,etc.) happens in a larger amount, they can properly bill for the infrastructure costs.
- 2) Why do we as customers have to bear the full cost from the atlas storm? This is a for profit company, shouldn't they be using some of the profits to fix there lines? All it appears to be happening for the rate increase is that we (public) are guaranteeing the dividend paybacks to the share holders.
- 3) Speaking of damages of the Atlas storm.. Shouldn't they be doing either more line burial or trimming back of the trees to prevent outages? This tree trimming, etc. should be happening all of the time.

Steve

002031

-----Original Message-----

From: Dennis Wilkins [REDACTED]

Sent: Wednesday, October 01, 2014 11:38 AM

To: Nelson, Chris

Subject: Reject the Black Hills Power rate request

Commissioner

Chair Hanson and Commissioners Nelson and Fiegen:

I strongly oppose the rate increase by Black Hills Power, and I urge you to deny their request. It is not in the public interest and it is not good for South Dakota. Black Hills Power tried to use this rate increase to make it harder for us to invest in our own electricity generation; it seems they are not making choices in the best interest of South Dakotans.

Black Hills Power should be investing in local energy and creating a more stable future for South Dakota's citizens and rate payers. The company knew coal was going to get more expensive, and now they're risking our future by investing in natural gas, another fossil fuel subject to price increases and further regulation.

Please deny Black Hills Power's rate increase request.

Dennis Wilkins  
[REDACTED]

002032

-----Original Message-----

From: Zac Eixenberger [REDACTED]

Sent: Wednesday, October 01, 2014 3:07 PM

To: Fiegen, Kristie

Subject: Reject the Black Hills Power rate request

Commissioner

Chair Hanson and Commissioners Nelson and Fiegen:

I strongly oppose the rate increase by Black Hills Power, and I urge you to deny their request. It is not in the public interest and it is not good for South Dakota. Black Hills Power tried to use this rate increase to make it harder for us to invest in our own electricity generation; it seems they are not making choices in the best interest of South Dakotans.

Black Hills Power should be investing in local energy and creating a more stable future for South Dakota's citizens and rate payers. The company knew coal was going to get more expensive, and now they're risking our future by investing in natural gas, another fossil fuel subject to price increases and further regulation.

Please deny Black Hills Power's rate increase request.

Zac Eixenberger  
[REDACTED]

002033

**From:** PUC

**Sent:** Tuesday, May 06, 2014 4:37 PM

**To:** [REDACTED]

**Subject:** FW: rate increase for Black Hills Power for October of 2014

Mr. Bauer:

This is in response to your May 4th email with several questions regarding the Black Hills Power rate case.

You ask why BHP does not break out the infrastructure charges from rates so when/if on-site power generation happens in a larger amount, they can bill for the infrastructure costs. It requires a delicate balance when designing a bill for utility customers that is both comprehensive and easily understood. While it is tempting to break out multiple components of an electric utility bill, it can be frustrating and confusing for most customers if the bill is broken down significantly. The Public Utilities Commission's staff members are involved with utility officials in designing a bill that satisfies most customer needs. The commission's staff deals with questions from investor-owned utilities' customers so those staff members have a good handle on what is often asked and understood. The goal is to have bills and bill explanations that make sense and answer questions for the vast majority of customers.

Your BHP bill currently has the following charges: Customer Charge, Energy Charge, and Cost Adjustment Summary. Items such as plant construction and maintenance are included in base rates, which are composed of the Customer Charge and Energy Charge. These rates can only be changed through the rate case process. If a customer has behind-the-meter generation and is using BHP for supplemental power, these fixed costs don't go away, regardless of whether or not the costs are listed separately on the bill. Here is a breakdown of the items in the Cost Summary Adjustment on BHP's bill which is the billing question most frequently asked:

EIA - Environmental Improvement Adjustment

EESA - Energy Efficiency Solutions Adjustment

TCA - Transmission Cost Adjustment

FPPA - Fuel and Purchased Power Adjustment

TFA - Transmission Facility Adjustment

The Energy Charge previously included some fuel, purchased power and transmission costs. Anything over or under these amounts was recovered through the FPPA and TCA. The Cost Adjustment Summary now includes the base fuel, purchased power and transmission costs, as well as the inputs listed above. By noting these separate components, BHP bills are more transparent and reveal specific costs associated with supplying electricity. These categories were scrutinized not only by staff, but by the other commissioners and me before BHP was allowed to recover them from customers. Prior to this step, the categories were part of legislation that was considered and approved by the South Dakota Legislature, allowing investor-owned utilities in the state to collect these specific costs from customers and providing regulatory oversight by the commission.

You question why customers must pay for the costs from storm Atlas, and why the company does not invest in burial of lines and tree trimming. State law provides that a utility has the right to recover the cost of insurance or damage to its facilities. If BHP carried insurance sufficient to cover the costs of all damage from storm Atlas, that insurance cost would be borne by you and other customers over a period of years. Therefore, it is important to weigh the cost to carry insurance that is sufficient to cover the expenses of extreme storms, similar to and even more extensive than storm Atlas, against the potential cost of the storm. Such a decision on insurance coverage is much like any individual must contemplate when deciding whether to carry liability-only insurance on a vehicle, or full coverage in case of an accident. As to whether BHP-purchased extensive coverage would have been more prudent or less expensive for you as a consumer is an answer I do not have at this point. That is something that will be analyzed over the course of this rate case.

As far as burying electric lines, the utility does have some lines that are buried. However, there is significant cost to bury electric lines and the cost to do so is borne by a utility's consumers via rates. Another consideration with line burial is that of maintenance and repair since that is also typically higher for underground lines. Therefore, while some buried lines usually make sense for a utility, burying all lines is usually not feasible or economical.

BHP does have a vegetation management program and in fact, it was on an accelerated tree trimming cycle at the time of the storm and continues to be. Atlas struck when most trees still had leaves on their branches and the storm's heavy moisture caused significant vegetation issues beyond what a typical winter storm would cause with ice and snow build-up. Keep in mind that the utility is allowed by law to pass on to its customers the expenses for tree trimming as part of their rates, just as is allowed for insurance and storm damage costs.

BHP is a public utility and as such, extensive laws at the federal and state levels govern it and also govern the commission as to regulatory oversight of the utility. The utility is allowed to pass along to its consumers most of the costs it incurs in providing you and all customers with electric service. This government oversight is in contrast to most other businesses providing us with services.

The cost of electricity is on the rise not only for you and me, but for other investor-owned, rural cooperative and municipal electric systems' customers throughout South Dakota and the U.S. We are hearing and reading reports in the news about this on a daily basis. The most-often-cited reason for the increased rates are new federal mandates, particularly those coming from the Environmental Protection Agency. American Electric Power reports that 65,000 MW of electric capacity are being retired largely because of EPA regulations. That is nearly 30 times the amount of electricity that the state of South Dakota uses at peak demand. EPA mandates was one of the four primary reasons cited by BHP in their filing of this rate increase request. You can read BHP official Vance Crocker's testimony about this in the docket, EL14-026: <http://www.puc.sd.gov/commission/dockets/electric/2014/EL14-026/crocker.pdf>

I hope this helps to answer your questions as far as what I am aware of at the present time. Your comments and my response will be filed in the open docket, and you can access the complete docket online at <http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx>

Given your questions and interest, I encourage you to follow along as this docket is processed and new documents are posted. Here is a document which helps explain the commission's processing of rate cases: <http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

Thank you for your message.

-----Original Message-----

From: Steve Thorpe [REDACTED]

Sent: Wednesday, October 01, 2014 1:41 PM

To: Nelson, Chris

Subject: Reject the Black Hills Power rate request

Commissioner

Chair Hanson and Commissioners Nelson and Fiegen:

I strongly oppose the rate increase by Black Hills Power, and I urge you to deny their request. It is not in the public interest and it is not good for South Dakota. Black Hills Power tried to use this rate increase to make it harder for us to invest in our own electricity generation; it seems they are not making choices in the best interest of South Dakotans.

Black Hills Power should be investing in local energy and creating a more stable future for South Dakota's citizens and rate payers. The company knew coal was going to get more expensive, and now they're risking our future by investing in natural gas, another fossil fuel subject to price increases and further regulation.

Please deny Black Hills Power's rate increase request.

Steve Thorpe  
[REDACTED]

002036

**From:** PUC

**Sent:** Wednesday, October 01, 2014 4:10 PM

**To:** [REDACTED]

**Subject:** FW: Black Hills Power Rate Case, EL14-026

Ms. Stout:

This is response to your message regarding the Black Hills Power rate case currently before the South Dakota Public Utilities Commission.

BHP is a public utility and as such, extensive laws at the federal and state levels govern it and also govern the commission as to regulatory oversight of the utility. The utility is allowed to pass along to its consumers most of the costs it incurs in providing you and all customers with electric service. This government oversight is in contrast to most other businesses providing us with services.

When a utility files a rate case with the commission, the commission is obligated by law to thoroughly process the case. We cannot simply say no and reject it outright since we are legally required to investigate it and make a just and reasonable decision. This process can take almost a year to complete. Each commissioner, the commission's staff and expert consultants hired by staff will review the entire case – also referred to as a docket – separately, along with any intervenors in the case. We request and review additional data and information from the utility before a decision is rendered.

All discussion involving commissioners on the case must be available to the public. The commission's work is done electronically to be the most time and cost effective, and therefore, anyone can review the majority of the filings in the case online. Consumers can submit comments to the commission electronically and these are made public.

My fellow commissioners and I are consumers too. We have family of several generations affected by utility costs and we understand how rate increases affect all of us. We have a strong desire to keep rates down and to protect citizens against increases. None of us want to raise rates. In fact, we hate to agree to any rate increase.

I believe your comments regarding BHP making it harder for ratepayers to invest in their own electric generation are in reference a rate change the utility decided to withdraw. Thus, as the commission won't be ruling on that request, those comments are not addressed in this letter.

Your comments and my response will be filed in the open docket so my fellow commissioners and others can read them. You can access the complete docket online at <http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx>

Given your interest, I encourage you to read the key documents filed in this docket as well as submissions that continue to be posted. This will allow you to become educated on the issues in this case. Here is a document which helps explain the commission's processing of rate cases:

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Gary Hanson, Chairperson  
South Dakota Public Utilities Commission  
[www.puc.sd.gov](http://www.puc.sd.gov)



**From:** PUC

**Sent:** Wednesday, October 01, 2014 4:28 PM

**To:** [REDACTED]

**Subject:** FW: Reject the Black Hills Power rate request

Mr. Wilkins:

This is response to your message regarding the Black Hills Power rate case currently before the South Dakota Public Utilities Commission.

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Gary Hanson, Chairperson  
South Dakota Public Utilities Commission  
[www.puc.sd.gov](http://www.puc.sd.gov)

**From:** PUC

**Sent:** Wednesday, October 01, 2014 4:32 PM

**To:** [REDACTED]

**Subject:** BHP Rate Case, EL14-026

Mr. Bloomer:

This is response to your message regarding the Black Hills Power rate case currently before the South Dakota Public Utilities Commission.

BHP is a public utility and as such, extensive laws at the federal and state levels govern it and also govern the commission as to regulatory oversight of the utility. The utility is allowed to pass along to its consumers most of the costs it incurs in providing you and all customers with electric service. This government oversight is in contrast to most other businesses providing us with services.

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Gary Hanson, Chairperson  
South Dakota Public Utilities Commission  
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