

Justin,

Thanks for the email. You address a lot of major regulatory issues. I don't have all of the answers yet, as this case is still on-going, but I'll try to provide some perspective.

First, you indicate that the rate increase has been caused by "poor decision making" on BHP's part. We don't know that yet, as that is a very fact-specific determination. They have an obligation to meet the needs of their customers in a prudent and cost-effective way. If they have incurred imprudent costs, they won't be able to recovery those costs.

Second, you ask, "why isn't the increased usage paying for the expansion?" We don't know all of the answers yet, but utility regulation doesn't segregate costs between new and old customers. We have seen some South Dakota utilities have long periods of rate stability because their steady and manageable load growth has allowed them to eliminate excess generation capacity. In essence, the new customers helped to keep the prices low for long periods of time for the old customers. But, when the excess capacity is eventually exhausted and a new plant is required, it isn't fair to blame all of the new costs onto new customers. I don't know whether or not my example is true for BHP, but it does provide some perspective. Rest assured, however, that Black Hills Power won't be able to charge you for a power plant its customers don't need and aren't using.

Third, you ask, "has BHP exhausted all other means by which they could fund their expansion?" I'm not sure what you mean by that. Some have suggested that BHP should issue debt or sell more stock to finance the plant. They are. Large capital investments are usually funded by issuing debt, acquiring additional equity (investors), or through a combination of both. Each of those options costs money. Borrowing money requires paying interest on those funds, and investors have a reasonable expectation of a fair return on their investment. In one sense, it's not the construction costs that BHP is asking for recovery of. Instead, ratepayers are being asked to pay for the amortized lifetime costs of financing the plant. In its application, BHP proposed that Wygen III be depreciated over its 45-year useful life.

Finally, you say that BHP's "profits need to be cut into before ours." Utility regulation is a near-unique world. The earnings of a regulated utility are constrained during both good and bad times. State statute, case law, and commission rules make it clear that a utility has a right to reasonable recover its prudently-incurred expenses. That includes a fair return on equity. There will be much fighting about what is reasonable, fair, and prudent, but the commission does not have unfettered discretion here. The same regulatory compact that keeps BHP from charging you whatever it wants keeps us from forcing them to charge you whatever we want. There are many, many rules of the road. In recent years commissions in this part of the country have allowed around an 8% blended rate of return. In some years that might seem good; in other years that might seem poor. I don't know yet what the SDPUC will do in this case.

Justin, please know that we are working very hard at the PUC to do the right thing here. Everyone at the commission wants your electric rates to be as low as reasonable in order to provide safe and reliable energy. None of the commissioners or staff members got into utility regulation to hurt their friends, family, or fellow South Dakotans. The PUC is working hard to ensure the final outcome of this proceeding will serve the public interest. The commissioners aren't elected by BHP; they are elected by the people of the state, and that's who they work for.

Thanks for taking the time to email.

Thanks,
Dusty

Dustin "Dusty" Johnson
Public Utilities Commission
605-773-3201

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

From: Johnson, Dustin (PUC)
Sent: Wednesday, March 17, 2010 8:30 PM
To: 'Justin Nauta'
Subject: RE: Black Hills Power Rate Increase

Justin,

I'm sorry I haven't emailed back yet. I don't want to just pass you off to a staffer and do want to respond to you specifically, but have been struggling to find the time. As you might expect, the volume of emails has been substantial. I'll get back with you soon.

Dusty

Dustin "Dusty" Johnson
Public Utilities Commission
605-773-3201

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

From: Justin Nauta
Sent: Tuesday, March 02, 2010 1:12 PM
To: Johnson, Dustin (PUC); Kolbeck, Steve; Hanson, Gary (PUC)
Subject: Black Hills Power Rate Increase

Gentlemen,

By now I am sure that you have received more than your fair share of comments concerning the pending rate hike proposed by Black Hills Power, however I am feeling compelled to share my concerns as well.

We own 3 Subway Restaurants in the Black Hills who are all serviced by BHP. Given the recent slowing of the economy we are faced with many challenges in keeping our operation profitable. We have had to make some very difficult cuts in our operation including the elimination of vacation and sick leave benefit program for our employees. It is frustrating to have to make those kind of cuts in order to remain profitable only to see the net gains made by such cuts washed away by this rate increase. Based on last years usage, we estimate that this increase will cost our company around \$6,000. This may not be a lot to many businesses, but to us, it is huge! What else are we supposed to cut?

I do not pretend to know all there is to know about this situation. I can only put it in terms that make sense in my world. If I made a decision to increase my physical plant that resulted in me having to charge 26% more to my customers, I would not survive as my customers wouldn't pay it. The problem we have here is there is no competition for us to turn to. They claim that the plant expansion was needed to meet the additional electrical demands. Why isn't the increased usage paying for the expansion? If it isn't paying for the expansion, then why did they do it in the first place? Also, has BHP has exhausted all other means by which they could fund their expansion? I believe we can pay our fair share, but this 26% is far and away beyond our fair share. It's too much of a burden.

I feel that this comes down to poor decision making on their part and they need to be held accountable. Their profits need to be cut into before ours. You are the only entity that can hold them to this level of accountability.

Please consider these thoughts as you all make a final decision on this rate hike.

Sincerely,

Justin Nauta
Spearfish, SD 57783