

BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
BLACK HILLS POWER, INC. TO)
ESTABLISH AN ENVIRONMENTAL)
MEASURES COST RECOVERY TARIFF) Docket No. EL ___ - _____

INTRODUCTION

Pursuant to SDCL Chapter 49-34A, Sections 97 through 100, relating to approval of tariff mechanisms for automatic annual adjustment of charges for jurisdictional costs of new environmental measures, Black Hills Power, Inc. (“BHP” or the “Company”) petitions the South Dakota Public Utilities Commission (the “Commission”) for approval of a new tariff establishing an Environmental Improvement Adjustment (“EIA”) pursuant to legislation enacted during the 2007 Legislative Session.

SDCL Chapter 49-34A, Sections 97 through 100, included at Exhibit A for reference, authorizes the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for a public utility to recover the South Dakota jurisdictional portion of eligible investments in and expenses related to new environmental measures. The statute defines eligible new environmental measures as any environmental improvements required under the Clean Air Act, the Clean Water Act, or any other federal law or rule, or any state law or rule implementing a federal law or rule, or voluntary environmental measures designed to protect the environment.

This filing seeks approval of a new tariff, the EIA. In addition, this Petition requests Commission approval of associated jurisdictional costs for certain environmental expenditures set forth in detail in this Petition. The Company has designed the tariff and calculated the rate adjustments in a manner that is consistent with SDCL 49-34A-97.

The Company proposes to recover the annual revenue requirement for the period April 1st, 2011 through March 31st, 2012 associated with the eligible costs incurred. The average bill impact for a typical residential electric customer is less than 2%. The Company proposes to implement the following rates per kWh to be effective June 1, 2011 and applied to all kWh billed to the respective customer classes for the twelve months ending May 31, 2012:

Residential	\$0.0020/kWh
Small General Service	\$0.0015/kWh
Large General Service and Industrial	\$0.0046/kWh
Lighting	\$0.0027/kWh

The following information is provided pursuant to South Dakota Administrative Rule 20:10:13:26 regarding the proposed new tariffs and cost recovery:

(1) Name and address of the public utility;

Black Hills Power, Inc.
625 Ninth Street
Rapid City, SD 57701

(2) Section and sheet number of tariff schedules;

BHP proposes to add Environmental Improvement Adjustment tariff sheet number 20 to Section 3C of the Black Hills Power, Inc. South Dakota Electric Rate Book. Exhibit B depicts the proposed tariff sheets that would implement this proposed EIA. In addition, certain rate schedules in Sections 3, 3A, 3B and 4 have been updated to reference the cost adjustment summary sheets (Section 3C Sheet No. 11 and 11A) that include the energy cost and environmental improvement adjustments.

(3) Description of the change;

This request proposes to establish a new tariff that would provide for cost recovery of environmental measures contemplated by SDCL 49-34A-97. The environmental adjustment rate described and proposed in this filing would be implemented through a separate line item on customer bills.

(4) Reason for the change;

This request proposes to implement SDCL 49-34A-97 for BHP, which is designed to allow timely recovery of the jurisdictional costs of new environmental measures by public utilities, thus eliminating unnecessary carrying costs. The environmental improvement project construction costs initially began to be incurred in late 2009 and the measures would not be considered used and useful until the April 16, 2011 in service date.

(5) Present rate;

None.

(6) Proposed rate;

A. Proposed Tariff.

Exhibit B depicts proposed tariff sheets implementing this proposed EIA. The Company proposes administering separate EIA factors for the residential; small general service; large general service and industrial; and lighting customers' kWh monthly billings.

The EIA is proposed to be made based on the revenue requirement of the measures being completed and in-service as of April 16, 2011. The EIA will be calculated annually based on actual kWh retail sales for the twelve months of June through May as compared to the forecasted retail sales volumes, and shall include an over or under recovery from prior years' adjustments through the Balancing Account. The Company proposes to file annually by April 30th of each year for rates effective for the twelve months from June 1st through May 31st.

B. Eligible Environmental Measures.

BHP owns a twenty percent (20%) interest in the Wyodak Power Plant located at the Gillette Energy Complex near Gillette, Wyoming. PacifiCorp owns eighty percent (80%) of Wyodak. Wyodak was built in 1977. It is comprised of one coal-fired boiler with a net generating capacity of 335 megawatts. It was manufactured by Babcock and Wilcox and equipped with wall-fired burners and commenced service in 1978.

In compliance with the Regional Haze Rule (40 CFR 51), the Wyoming Division of Air Quality (WDAQ) required PacifiCorp to conduct a detailed Best Available Retrofit Technology (BART) review to analyze the effects to visibility in nearby Class I areas from plant emissions, both for baseline and for reasonable control technology scenarios.

A BART analysis has been conducted for the following criteria pollutants: nitrogen oxides (NO_x), sulfur dioxide (SO₂), and particulate matter (PM). In completing the BART analysis, technology alternatives were investigated and potential reductions in NO_x, SO₂, and PM emissions rates were identified.

To achieve the BART SO₂ emission limit, it is necessary to replace the electrostatic precipitator (ESP) with a fabric filter or baghouse on the Wyodak plant. A baghouse addition will also allow compliance with the permitted particulate emission limit, and provide additional co-benefits associated with mercury removal and PM emissions reductions. To reduce nitrogen oxide emissions and meet the BART permit requirements, low NO_x burners are being installed on the unit. This in-furnace combustion modification

is designed to reduce NOx emissions produced in the boiler during the coal combustion process.

The purpose of this project is to improve emissions removal performance and increase overall sulfur dioxide removal by:

- Adding a new pulse jet fabric filter baghouse to functionally replace the existing ESP, which will be abandoned in place;
- Removing the bypass ducts around the spray dryer absorbers (SDA) thereby processing 100% of the flue gas through the existing SDA and the new baghouse;
- New induced draft fans are also included and sized for an additional pressure drop allowance for a future Selective Catalytic Reactor;
- General reinforcing of the boiler and gas path are also required due to the new induced draft fans.

To meet the requirements of the BART permit, emissions controls to satisfy the new emission limits must be in place before the end of 2011.

C. Supporting Information.

The Company offers the following supporting information in accordance with SDCL 49-34A-99:

1. *A description of and context for the costs and expenses of environmental improvements included for recovery.* The descriptions of measures the Company believes are eligible for recovery under this Environmental statute and through the EIA are set forth in Section B above.
2. *A schedule for implementation* of the measures described in this petition is as follows: The environmental improvement construction projects started in late 2009 and will continue until the expected in-service date of April 16, 2011. The Wyodak plant is scheduled for a major overhaul from March 5, 2011 through April 15, 2011. At this time, final steps will be taken to make the environmental measures operational when the plant is back on-line on April 16, 2011.
3. *The public utility's costs and expenses for these measures* are included in Exhibit C.
4. *A description of the public utility's efforts to ensure the lowest reasonable costs to ratepayers for the measures* is included in the PacifiCorp BART permit application and review set forth as Exhibit D.

5. *Calculations to establish that the rate adjustment is consistent with the terms of the tariff established in § 49-34A-98 are included in Exhibit C.*

D. Balancing Account and Accounting

The annual environmental improvement recovery amount will include the Commission approved revenue requirement net of the projected over or under recovery of the prior year's approved recovery amount. The monthly environmental improvement adjustment revenues collected from retail customers will be compared to the monthly proration of the approved recovery amount and the difference will be recorded to a Balancing Account. The projected May 31st balance of this Balancing Account will be used in the calculation of the next year's annual environmental improvement recovery amount for Commission approval. The Balancing Account amount shall have interest applied or credited monthly at the annual rate of seven percent (7%).

E. Cost Recovery

1. Summary

Exhibit C provides support for the proposed EIA rate. This information is summarized as follows:

- Project expense summaries are provided on Schedule C-3 Rate Base and Schedule C-5 Deferred Tax Adjustment. Monthly actual project expenditures incurred through December 2010 for the two projects are included in Schedule C-6 Monthly Project Cost Detail.
- The annual revenue requirement for each April 1st through each March 31st to be recovered under the EIA rate from South Dakota electric customers for the Wyodak environmental improvement projects is provided in Schedule C-2 Cost of Service. Additional support for the components of the costs of service calculation is included in Schedule C-3 Rate Base, Schedule C-4 Operating Expenses and Taxes and Schedule C-5 Deferred Tax Adjustment.
- The calculation for the Environmental Improvement Adjustment rate for the period June 1, 2011 through May 31, 2012 is provided in Schedule C-1 Cost Recovery Rate Calculation and is also shown below.

2. Environmental Improvement Adjustment Rate

The Company's EIA rate design for the period June 1, 2011 through May 31, 2012 is the calculated annual revenue requirement plus a one-time adjustment to accommodate the period from the in-service date of April 1, 2011 through April 15, 2011. This revenue requirement is then allocated based on production capacity allocators by customer class and then divided by the forecasted kWh for June 1, 2011 through May 31, 2012. This calculation is shown on Schedule C-1.

Based on this rate design, we propose the following EIA rate:

	<u>Rate/kWh</u>
Residential	\$0.0020
Small General Service	\$0.0015
Large General Service and Industrial	\$0.0046
Lighting	\$0.0027

3. Environmental Improvement Adjustment Revenue Requirements

The annual revenue requirement support is summarized in Schedule C-2 Cost of Service. In addition to the direct project costs, current and deferred federal taxes, book depreciation, and property taxes are included in the revenue requirement. The federal tax calculations incorporate current bonus depreciation legislation. The annual revenue requirement is \$3,105,226. As stated above, there is a one-time adjustment to this revenue requirement in the first year to accommodate the period from the in-service date of April 1, 2011 through April 15, 2011. With this adjustment the first year revenue requirement recovery is \$3,072,704.

The overall cost of capital to be used in the EIA revenue requirement calculation was determined in the Commission's Order in Docket No. EL09-018, Black Hills Power's most recent rate case. Project costs and the revenue requirement are allocated to the State of South Dakota retail jurisdiction and customer classes based on the same production capacity allocator used in the most recent approved rate case.

A true-up for the projected difference between the revenues received from customers and actual revenue requirement will be included in the April 30, 2012 filing. Any resulting over or under recovery from customers will be reflected as a carry over balance from the prior period and incorporated in determining the June 1, 2012 through May 31, 2013 EIA rate. This annual true-up and related review will serve to

terminate recovery once costs and expenses have been fully recovered or are reflected in general rates.

(7) Proposed effective date of modified rate;

The Company proposes this new tariff would be effective June 1, 2011.

(8) Approximation of annual amount of increase in revenue;

Schedule C-1 shows the total first year revenue requirement to be recovered in the amount of \$3,072,704. If approved, this amount would be passed on to customers from June 1, 2011 through May 31, 2012.

(9) Points affected;

The proposed tariff would be applicable to all areas served by BHP in South Dakota.

(10) Estimation of the number of customers whose cost of service will be affected and annual amounts of either increases or decreases, or both, in cost of service to those customers;

This tariff is proposed to be applied to all customers throughout all customer classes as described within the filing. BHP presently serves approximately 64,000 customers in Western South Dakota.

(11) Statement of facts, expert opinions, documents, and exhibits to support the proposed changes;

Please see Exhibits attached.

Planned Customer Notice

In addition, the Company plans to provide notice to customers regarding inclusion of this cost on their monthly electric bill in accordance with South Dakota Administrative Rule 20:10:13:19. The following is proposed language to be included as a notice in the customers' bill the month the EIA factor is implemented:

“The Environmental Improvement Adjustment recovers the costs and expenses of environmental measures taken by Black Hills Power. Additional information regarding this Adjustment may be obtained by visiting www.blackhillspower.com or calling 1-800-742-8948 and reference the Black Hills Power Environmental Improvement Adjustment.”

We will work with the Commission Staff to determine if there are any suggestions to modify this notice.

Company Contacts

The Company will be represented in this proceeding by the following persons. Correspondence regarding this proceeding should be directed to the following:

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Conclusion

Black Hills Power respectfully requests that the Commission approve the proposed tariff and environmental cost recovery mechanism described in this filing.

Dated January 25, 2011

Black Hills Power, Inc.

By: 

Chris Kilpatrick
Director of Rates