From: Rounds, Brian
Sent: Thursday, January 24, 2013 10:58 PM
To: bruce@chooseBHIS.com
Subject: RE:Please make a stand re. Proposed rate increase on SD that will be an economic boon for WY and not SD.

Dear Mr. Bowden:

Thank you for your recent email to the Commission regarding Black Hills Power (BHP). Because the topic of your email involves an open docket (EL12-062- http://puc.sd.gov/Dockets/Electric/2012/el12-062.aspx) on which commissioners will ultimately vote, your letter will be added to the docket, and Chairman Hanson asked staff to provide a response to your concerns.

Access to Natural Gas & Coal
In your email, you point to the Black Hills area's proximity to "energy production all around us, the proposed Keystone pipeline and other routing of gas thru this area". Although there is significant coal production in Wyoming and North Dakota, the cost of delivering those resources here is not competitive with the cost of delivering the electricity via transmission lines. The more recent oil development in North Dakota as well as the proposed Keystone XL pipeline are not relevant to BHP's generation planning because 1) oil is not an economic source of fuel for electric generation; and 2) it is not usable as it is not refined.

The low price and operational flexibility of natural gas are probably what makes it attractive to BHP. Unfortunately, the Black Hills area is pretty secluded from major natural gas pipelines. If you look at the EIA's map here (http://www.eia.gov/pub/oil_gas/natural_gas/analysis_publications/ngpipeline/dependstates_map.html), you'll notice there is a trunk that comes down from Montana, but we have nowhere near the access that Cheyenne has. That being said, BHP will have to prove to the Commission that the gas plant in Cheyenne was the most prudent choice, and these are the types of questions our staff will be asking them in the process.

Renewable, Recycled and Conserved Energy Objective
In your email, you mention "the SDPUC's '08 mandate for 10% renewable ratio by 2015". The Renewable, Recycled and Conserved Energy Objective (RRCEO) is not a SDPUC mandate. It is the result of an act by the SD legislature passed in 2008. The SDPUC is responsible for developing and compiling a reporting process on achievement of that goal. The RRCEO sets a voluntary goal for all utilities to generate 10% of their energy from renewable sources. The only true

requirement in the law is for the utilities to report on their progress towards the goal to the SDPUC. Thus, the objective is not a mandate, and BHP is not required to meet it.

Energy Efficiency Programs
In your email, you point out the differences between the energy efficiency incentives BHP offers in this state versus others. BHP recently began implementing a new suite of energy efficiency programs that were approved by the commission for rate recovery. Prior to this, BHP was offering a few energy efficiency programs, but they were mainly as a customer service or fuel-switching incentive. There was no commission oversight of these programs, as the costs were not recovered through rates. The current suite of programs are considered to be "pilot" in nature, and BHP is expected to file annual updates to the programs as they gain experience in running them.

Many states have much more aggressive energy efficiency programs than we have in South Dakota. In some cases that is a result of politics, and in some cases that is a result of very high electric rates in those areas. The programs approved for BHP met a cost-benefit test that showed each program should have net benefits for BHP ratepayers as it is the ratepayers who must pay for them. Simply adding programs is not an option exercised by the SDPUC if those programs have a higher cost than benefit. I can’t speak for what other states are doing, but it is my hope and expectation they follow the same principles. Following these principles does not mean the programs offered in each state will match.

While an issue of this sort has not been raised for some time at the SDPUC, I expect the Commission would prefer not to have the utility competing with local businesses if possible and practical. To the extent local businesses could handle the energy efficiency program demand BHP generates, and at a similar cost, I'm certain both the Commission and BHP would be wiling to work towards a solution. But before any decision could be made one has to have more than general information.

Consideration of Local Economic Development
South Dakota Codified Law (SDCL 49-34A-8.4) requires BHP's investment to be "prudent, efficient, economical...reasonable and necessary". When considering how to spend ratepayer dollars, whether on a new generation source or energy efficiency, BHP needs to find the lowest cost option. To the extent trade-offs can be made so local investments result in similar costs, BHP can and should consider these. Commission staff will be reviewing BHP's decisions using these guidelines, and in the end, the Commission will vote on them. Ultimately the primary goal is to achieve the most beneficial outcome as BHP electrically serves the Black Hills region. The location of a power plant must make economic sense for the ratepayers, and the economics must be supported, and the facts fully vetted. The location of fuel sources, and the cost or even the ability to transport fuel are of primary importance in the economic decision, and diminishing any rate increases is of primary importance for ratepayers. One fact we do know is that all of the fuel sources, except for renewables, are in other states.

Hopefully this cleared up some of your questions. Feel free to contact me with any additional questions you might have.

Brian
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