

From: Thurber, Jon
Sent: Tuesday, February 19, 2013 12:44 PM
To:
Subject: RE: Black Hills Power

Dear Mr. Christensen:

Thank you for your recent email and phone calls regarding the Black Hills Power rate case. I am a staff utility analyst working on the current BHP dockets you reference. Your letter will be filed in the pending BHP rate case docket, EL12-061. The rate docket and its filings are posted online at www.puc.sd.gov. Click on "Commission Actions", "Commission Dockets," "2012 Electric Dockets," and "EL12-061".

You first indicated that Wygen III has been sitting idle for the last year and a half, possibly longer.

BHP is required by federal law to report power plant operations to the U.S. Energy Information Administration (EIA). According to the U.S. EIA, Wygen III was online 95.6 percent of the time in 2011 and 97.2 percent of the time in 2012. I have attached the Wygen III 2011 and 2012 monthly operation reports for your convenience.

Your second concern was related to executive compensation, both salaries and bonuses.

Black Hills Corporation's (BHC) board of directors set the salaries and compensation of executive management and the commission has no authority over that function. However, the commission does have authority over the amount of executive compensation included in BHP's South Dakota rates. The salaries and bonuses of executives are allocated between BHC's three unregulated and seven regulated businesses, meaning that shareholders and other businesses must pay the majority share of executive compensation. After the costs are allocated to the different regulated businesses, the costs are further allocated to the different states in which they operate. In the end, South Dakota customers are allocated a small percentage of BHC's executive compensation. Executive compensation will be reviewed during the pending rate case, and South Dakota customers will pay a reasonable, but not excessive, amount of executive compensation on a proportionate basis.

Your next concern related to the amount BHP cleared two and three years ago, over one million dollars a day.

The commission only has the authority to regulate the rates charged by BHP in South Dakota. As part of the rate case filed in docket EL12-061, the company provided its South Dakota jurisdictional report for the year that ended June 30, 2012. On line 20 of this report, BHP indicated it earned \$32,697,234 in South Dakota on \$203,584,400 of revenues and \$170,887,166 of expenses. I have attached this report for your convenience. I cannot find the figures you are referencing: \$365,000,000 three years ago, and \$408,000,000 two years ago. Perhaps these figures are for BHC and not BHP, a subsidiary of BHC. If that is the case, the commission does not have authority to determine the rates charged by regulated subsidiaries of BHC in other states, such as Black Hills Colorado Electric Utility Company, or consider the earnings of BHC unregulated subsidiaries such as Black Hills Exploration and Production, in our rate proceedings in South Dakota. South Dakota rates are established to cover BHP's service costs and allow a reasonable return on the investments used to serve South Dakota retail customers pursuant to

state law. Nonetheless, while I can't find the figures you reference, earning over a million dollars a day needs to be placed within the context of capital employed in the business and the earned return on investment. Earning a million dollars a day may or may not be a satisfactory return, depending on the size of the business. The commission will perform an in-depth analysis of BHP costs and investments as part of the rate case, to determine an appropriate level of earnings for its South Dakota jurisdiction.

If you would like to learn more about the various issues under review for BHP, here are links to the pending rate filing: <http://www.puc.sd.gov/Dockets/Electric/2012/e112-061.aspx> and BHP's request to phase-in the rate increase associated with the new natural gas power plant: <http://www.puc.sd.gov/Dockets/Electric/2012/e112-062.aspx>.

I hope this answered your questions. Feel free to contact me with any additional questions you may have.

Sincerely,

Jon Thurber
Staff Analyst
SD Public Utilities Commission