

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**APPLICATION OF
BLACK HILLS POWER, INC.
FOR THE PHASE IN OF RATES REGARDING
CONSTRUCTION FINANCING COSTS**

Docket No. EL12-___

Filed: December 17, 2012

Black Hills Power, Inc. (“Black Hills Power” or “Applicant” herein), a South Dakota corporation, hereby submits its Application pursuant to South Dakota Codified Laws (“SDCL”) 49-34A-73 et. seq. and respectfully requests an order from the South Dakota Public Utilities Commission (“Commission”) permitting Applicant to implement a phase in rate increase for its South Dakota customers relating to the construction financing costs of Cheyenne Prairie Generating Station (“CPGS”). The proposed phase in rate increase is set forth in the tariff sheets contained in Exhibit CJK - 103 attached thereto and made a part hereof. If such Order is granted, said phase in rate increases in Exhibit CJK - 103 will be published in Applicant’s Tariff Section 3C, Sheet No. 5. This tariff sheet incorporates the phase in rate increases calculated in Exhibit CJK – 104 attached hereto, and is requested to become effective February 1, 2013.

In support hereof, Applicant sets forth the following facts and circumstances justifying the granting of this Application:

1. Applicant's exact legal name is Black Hills Power, Inc., with its principal place of business located at 409 Deadwood Ave., Rapid City, South Dakota, 57702. Black Hills Power, Inc. is a corporation, incorporated on August 27, 1941 under the laws of South Dakota. It is a wholly owned, first tier subsidiary of Black Hills Corporation. Black Hills Power provides retail electric service in South Dakota, Wyoming, and Montana.

2. Black Hills Power and Cheyenne Light, Fuel & Power Company ("Cheyenne Light") will jointly own CPGS. CPGS is a natural gas-fired power station that will be constructed in Cheyenne, Wyoming that will generate a nominal net output of 132 MW, of which 55 MW is Black Hills Power generation. The total estimated cost of CPGS is \$222 million, excluding the Allowance for Funds Used During Construction (AFUDC"). Black Hills Power's total estimated portion of the total cost of CPGS is \$95 million. Black Hills Power is requesting that it be authorized to phase in a rate increase to recover only the construction financing costs related to CPGS, in lieu of traditional AFUDC.

3. Black Hills Power presently has pending before this Commission an Application for an Increase in Electric Rates that was filed on December 17, 2012 ("Present Rate Case"). The Present Rate Case is a stand alone docket and is not connected to this phase in plan. The return on equity that will be authorized in the

Present Rate Case will be used by Applicant for calculation of quarterly rates in the phase in plan. Any difference in the return on equity will be passed to customers through the true-up process.

4. The proposed phase in of rates is to be a quarterly increase in the Applicant's electric rates over the construction period of CPGS. The graduated increase in rates is expected to mitigate the impact Black Hills Power customers would otherwise experience by avoiding a larger increase in electric rate base when CPGS is placed in service on or about October 1, 2014.

5. Black Hills Power estimates that the proposed phase in of rates to recover the CPGS construction financing costs will save its South Dakota customers in excess of \$1.5 million on a net present value basis by avoiding AFUDC. Black Hills Power estimates that this results in an approximately \$8.5 million reduction to rate base and overall savings to customers due to a rate of return utilizing Black Hills Corporation's expected short term borrowing rate rather than long term debt cost. By avoiding approximately \$8.5 million of rate base, this will have an associated revenue requirement amount of almost \$1.3 million annually that can be avoided in the future. Among other things, Mr. Kyle D. White's testimony provides an overview of the proposed phase in plan and describes the benefits to customers of the phase in plan as it relates to CPGS. Except for the requested phase in rates relating to the construction

financing costs of CPGS, this Application and the Present Rate Case do not include any phase in rates relating to CPGS or the costs of CPGS.

6. It is necessary that Black Hills Power construct CPGS because Black Hills Power will need the 55 MW generated by CPGS. The CPGS generation will replace the power produced by Black Hills Power's small coal-fired generation that will be retired on or before March 21, 2014 due to new environmental regulations. The testimony of Mark Lux outlines the need for CPGS by Black Hills Power and provides a detailed description of CPGS.

7. While not binding on this Commission, the Wyoming Public Service Commission ("Wyoming PSC") granted Black Hills Power and Cheyenne Light a Certificate of Public Convenience and Necessity ("CPCN") authorizing the construction, operation and maintenance of CPGS in Cheyenne, Wyoming. The Joint Application for a CPCN was filed by Black Hills Power and Cheyenne Light on November 1, 2011. Black Hills Power and Cheyenne Light settled with the Wyoming Office of Consumer Advocate, and the Wyoming PSC approved that settlement and granted the CPCN in open meeting action on July 31, 2012.

8. Subsequent to the Wyoming PSC approval of the CPCN, Black Hills Power made a filing in Wyoming that is similar to this Application. On August 31, 2012, Black Hills Power filed an application with the Wyoming PSC to establish a CPGS tariff for Applicant's Wyoming customers providing for recovery of the CPGS construction financing costs through the CPGS tariff, in lieu of the traditional AFUDC.

On October 30, 2012, the Wyoming PSC approved the CPGS tariff effective November 1, 2012. A copy of the Order entered by the Wyoming PSC is attached as Exhibit CJK-106 to the testimony of Christopher J. Kilpatrick. The phase in rate increase requested in this Application is nearly identical in form to the CPGS tariff that was approved by the Wyoming PSC for rates effective November 1, 2012.

9. Applicant requests the phase in rate tariff be effective February 1, 2013, and terminate with the effective date of new base rates that include the investment and costs of the CPGS. Applicant respectfully requests that this Commission not suspend the phase in rates, but rather allow these rates to become effective February 1, 2013, subject to refund until such rates are approved by this Commission. The primary purpose of the request for the phase in rates to become effective February 1, 2013 subject to refund is to maximize benefits to customers. If the phase in rates are not in place concurrently with construction financing costs, it will be necessary for Applicant to include AFUDC with rate based construction costs for the period construction financing costs are not recovered, and this would reduce the savings to the customers. If Applicant begins collecting the phase in rates on February 1, 2013, and the Commission approves the phase in rates at some later date, the customers will realize the full savings benefit of avoiding AFUDC. Earlier implementation also raises rates more gradually and will reduce the increase required when the new generation goes into commercial operation in the fall of 2014. If Applicant begins collecting the phase in rates on February 1, 2013, and the Commission does not approve the phase in plan rates or approves some lesser rate, Applicant will make the appropriate refunds to customers with interest at 7% through the use of a balancing

account. The approach proposed by Applicant results in the greatest opportunity for savings for customers. Details regarding the phase in rate increase and the applicable tariff, the calculations, cost of service analysis, and customer benefit analysis are provided in Mr. Christopher J. Kilpatrick's direct testimony. Applicant requests the first quarterly phase in tariff rate be effective for the period February 1, 2013 through April 30, 2013. The next quarterly CPGS tariff rate compliance filing will be made with the Commission no later than April 1, 2013 for rates effective May 1, 2013.

10. The changes proposed in this Application affect all of Black Hills Power's electric service customers that are located in South Dakota. Based on the Applicant's request, a typical residential customer using an average of 650 kilowatt-hours (kWh) of power each month will see an increase of \$0.88 per month, or about 3¢ per day. Over the term of the phase in plan, the typical residential customer's bill will increase starting at around 1% and ending up at the completion of the phase in plan (which is currently anticipated to be October 1, 2014) at approximately 4.5%. The increase experienced by residential, commercial and industrial customers will vary depending on rate class, load factor, and amount and nature of use.

11. The Application and the proposed phase in plan is being filed pursuant to SDCL 49-34A-73 to 78, although the Commission also has the right to hear and decide this matter as part of its general ratemaking authority. Applicant has complied with the requirements of those statutes as set forth in the testimony of Richard C. Loomis.

12. In support of this Application, the Company herewith submits an original and twelve (12) copies of the following, together with a CD with a pdf version:

Section 1:

Application

Customer Notice

Attestation by Authorized Accounting Representative

Section 2:

Mr. Kyle D. White Direct Testimony

Mr. Christopher J. Kilpatrick Direct Testimony

Exhibit CJK – 101 Customer Benefit Analysis

Exhibit CJK – 102 Phase in Tariffs – Legislative

Exhibit CJK – 103 Phase in Tariffs – Clean

Exhibit CJK – 104 Schedules:

Schedule A – Phase in Rate (PIPR)

Schedule B – PIPR Quarterly Revenue
Requirement Calculation

Schedule C – Customer Impact

Schedule D – Monthly CPGS
Construction Costs

Exhibit CJK – 105 Cost of Service

Exhibit CJK – 106 Order from Wyoming Public Service
Commission

Mr. Mark Lux Direct Testimony

Mr. Richard C. Loomis Testimony

13. Black Hills Power has provided evidence demonstrating that the result of the phase in tariff is fair and reasonable and in the public interest. The phase in tariff meets the requirement of being just and reasonable in a manner that is fair and provides benefits to customers (both individually and as a whole) and to Black Hills Power. Good cause exists for granting Applicant's request that the phase in rates set forth in this application become effective on February 1, 2013, based on the supporting data provided.

14. Black Hills Power hereby certifies that the "Notice of Changes in Rates - Phase in Rate Plan" included as part of this Application will be exhibited in a conspicuous place in each of the its local district offices in the territory affected, for at least thirty (30) days prior to the date such change is to become effective. Each Notice states that the proposed phase in plan rate increase Application is available in that office for inspection. Black Hills Power also certifies Notice has been or is being provided to the public in all respects as required by ARSD §§ 20:10:13:17 through 20:10:13:19. All of Applicant's customers will be made aware of this Application through our Notice that will be included in customer bills, our press release and our website www.blackhillspower.com, which will contain information describing the Application.

Black Hills Power shall provide such further notice to customers as may be ordered by the Commission.

15. The Company requests confidential treatment of the following portions of Exhibit CJK-105:

Schedule I-1 pg 9
Schedule I-1 pg 10
Schedule K-1
Schedule K-3

The noted documents qualify for confidential treatment because they contain proprietary business information which the Company does not disclose to the public. The Company requests these noted documents be treated as confidential forever.

16. The Commission's communications with the Company regarding this Application should be directed to:

Chris Kilpatrick, Director of Resource Planning and Rates
Black Hills Power, Inc.
P.O.Box 1400 – 625 Ninth Street
Rapid City, South Dakota 57709-1400
(605) 721-2748
Chris.kilpatrick@blackhillscorp.com

with a copy to:

Todd L. Brink, Senior Counsel
Black Hills Power, Inc.
P.O.Box 1400 – 625 Ninth Street
Rapid City, South Dakota 57709-1400
(605) 721-2516
Todd.brink@blackhillscorp.com

with a copy to:

Lee A. Magnuson
Lindquist & Vennum, PLLP
101 South Reid Street, Suite 302
Sioux Falls, SD 57103
605-978-5201
lmagnuson@lindquist.com

WHEREFORE, Applicant respectfully requests that the Public Utilities Commission of the State of South Dakota:

1. Find that allowing the current recovery of Cheyenne Prairie Generating Station construction financing costs is in the public interest;
2. Approve the proposed tariff and interim quarterly phase in rates effective February 1, 2013, without suspension and subject to refund, in order to maximize benefits to customers; and
3. Enter an Order authorizing Applicant to file its tariff sheets referenced herein to become effective February 1, 2013.

Dated this 17th day of December, 2012.

BLACK HILLS POWER, INC.

By:


Chris Kilpatrick
Director, Resource Planning
and Rates

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

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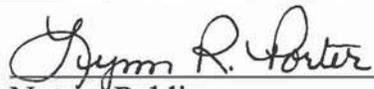
STATE OF SOUTH DAKOTA)
COUNTY OF PENNINGTON) SS:

I, Chris Kilpatrick, being duly sworn, do hereby depose and say that I am Director, Resource Planning and Rates for Black Hills Power, Inc., Applicant in the foregoing Application; that I have read such Application; and that the facts set forth therein are true and correct to the best of my knowledge, information, and belief.


Chris Kilpatrick
Director, Resource Planning and Rates

Subscribed and sworn to before me this 14th day of December, 2012.




Notary Public
commission expires: 12/1/14