BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF BLACK HILLS POWER, INC. FOR THE PHASE IN OF RATES REGARDING CONSTRUCTION FINANCING COSTS OF CHEYENNE PRAIRIE GENERATING STATION	)))))))	**EL12-062**

PHASE IN PLAN RATE BALANCING ACCOUNT AND REFUND MECHANISM

Black Hills Power, Inc., ("Black Hills Power" or "Company"), a South Dakota corporation, respectfully requests an order from the South Dakota Public Utilities Commission ("Commission") approving its Phase In Plan Rate ("PIPR") rider balance and method to refund the balancing account amounts.

Per the approved stipulation in the above referenced docket, the Company filed quarterly PIPR compliance filings for rates effective through September 30, 2014, for the recovery of construction financing costs associated with Cheyenne Prairie Generating Station ("CPGS"). CPGS was placed into operation effective October 1, 2014. The inclusion of the Company's investment in CPGS along with ongoing operation and maintenance cost of the power plant was included in base rates through the Company's rate proceedings in Docket EL14-026. The Commission approved the Amended Settlement Stipulation reached in the Company's rate case on March 2, 2015, with interim rates effective on October 1, 2014. The Company requests the Commission accept this filing as a final reconciliation of the PIPR approved in this docket.

I. EXHIBITS IN SUPPORT OF APPLICATION

The exhibits identified below support the Company's requests for the Commission's approval of the Company's PIPR balancing account amounts and refund mechanism.

- Exhibit 1 - Phase In Plan Rate Model
  - Schedule A – PIPR Calculation
  - Schedule B – Customer Impact
  - Schedule C – Monthly CPGS Construction Costs
  - Schedule D – Balancing Account
  - Schedule E – Actual Revenue Requirement CONFIDENTIAL
  - Schedule E – Actual Revenue Requirement

II. FINAL TRUE-UP OF CPGS CONSTRUCTION COSTS

In preparation of this filing, the Company has undertaken a thorough examination of the costs included in its various Company CPGS construction accounts. In addition, the Company has taken action to (a) verify costs that are properly included among the cost of CPGS construction, (b) remove costs that should not be included among the cost of CPGS construction for purposes of the PIPR and (c) reconcile costs with those included in the schedules related to the PIPR.

A. Review of Costs

The Company reviewed the monthly CPGS construction cost cash flow reports. As a result of its review process, the Company has identified certain costs that either (1) need further explanation, (2) need to be corrected, or (3) need to be removed from the cash flow reports.

The various CPGS expense areas that the Company believes needed clarification, correction, or removal are spare parts cost, 8" Y-111 pipeline cost, transportation equipment, labor cost, and debt refinancing.

B. Results of Construction Cost Review

For the CPGS construction cost areas identified herein that require further explanation, the Company will discuss those items in more detail below.

1. Spare Parts

Subsequent to the March 14, 2014 filing for the PIPR Rates effective May through September 2014, Company identified that spare parts were included in the CPGS costs for purpose of the PIPR. The Company recognizes that spare parts would not normally be subject to AFUDC so these costs were removed from the monthly CPGS construction cost cash flows in the month the costs were incurred.

2. 8" Y-111 Pipeline Cost

The Y-111 Pipeline is an 8" diameter natural gas line of approximately three (3) miles in length connecting the CPGS Pipeline with Cheyenne Light, Fuel and Power Company's ("Cheyenne Light") natural gas distribution system referred to as the "Y-111 Pipeline." The Wyoming Public Service Commission ("PSC") approved the Certificate of Public Convenience and Necessity ("CPCN") in Wyoming Docket No. 30005-183-GA-13.

In conjunction with the filing of the application on December 10, 2013 in Wyoming Docket No. 30005-183-GA-13, the Company determined that Y-111 Pipeline construction costs should not be included with other CPGS costs for purpose of the PIPR since such costs related to the enhanced integrity of the Cheyenne Light's natural gas distribution system.

Accordingly, those construction costs were removed prior to the compliance filing for the PIPR effective February 1, 2014, and Company did not include them in future PIPR compliance filings.

The indirect costs associated with the Y-111 Pipeline consist mostly of the interconnection fees associated with the Y-111 Pipeline. These indirect costs are appropriate for inclusion in the PIPR because those pipeline interconnection costs would be incurred for the 12" CPGS Pipeline regardless of the Y-111 Pipeline. Once the PSC's Order for the Y-111 Pipeline was issued on April 2, 2014, granting the CPCN in Wyoming Docket No. 30005-183-GA-13, the Company removed the indirect costs related to the Y-111 Pipeline from the cash flow commencing on April 2014. This action occurred subsequent to the March 14, 2014 PIPR compliance filing.

3. Transportation Equipment

Once the Company's transportation equipment was placed in service it was no longer subject to AFUDC. Therefore, transportation equipment has been removed from the cash flow effective in the month it was placed in service.

4. Labor Cost Allocation

During the CPGS project, labor costs for the entire CPGS project were primarily recorded to one sub-project, the Simple Cycle unit. These costs were allocated to the various sub-projects in September 2014 and spread to the month costs were incurred reflecting the appropriate monthly cash flow.

5. Revised Debt Cost

The debt cost was updated beginning in October 2013 to reflect the reduced cost of BHC's borrowings under its revolving credit agreement. This reduction was a result of the Company's upgraded status on the pricing grid in the agreement. An amended and restated credit agreement was entered into on May 29, 2014 and the debt cost beginning in June reflects the reduced cost of BHC's borrowings under this agreement.

III. PIPR BALANCING ACCOUNT REFUND

In addition to the true-up of CPGS construction costs, the Company also requests approval of a refund mechanism related to the PIPR balancing account. To that end, Company has prepared a plan for the dissolution of the PIPR Balancing Account.

Specifically, the Company completed the schedules and reports listed below in order to support this filing:

- Company prepared a revenue requirement based on actual costs for the entire PIPR period (Exhibit 1, Schedule E);
- Company updated the PIPR Balancing Account for the entire PIPR period to determine the over or under recovery of the Company's revenue requirement from its various customer classes (Exhibit 1, Schedule D).
- The Company proposes to credit the over recovery amount to customers using the same method as billed to customers. Exhibit 1, Schedule A shows how the amount in the Balancing Account should be refunded to its customers. For the Residential and Lighting classes, the per kWh rate is developed by dividing each class' ending amount in the Balancing Account by the average of the historical May and June kWh billing amount. This rate is then applied to the energy used on and after June 1, 2015 through June 30, 2015. For the General Service Small, General Service Large and Industrial Contract Service, the per kW / kVA rate is developed by dividing each class' ending amount in the Balancing Account by the average of the historical May and June kW / kVA billing amount. This rate is then applied to the demand on and after June 1, 2015 through June 30, 2015. As customers are billed for this energy, they will receive a refund per kWh/kW/kVA as shown on Exhibit 1, Schedule A. Using a 2-month average will help minimize the fluctuations in monthly energy use or demand. The amounts to be

refunded should not be viewed as causing a significant benefit or burden on the customer for the month in which it will appear on the customer's bill.

Once the one-time bill credit has been processed, the remaining Balancing Account amount will be credited or charged to the Environmental Improvement Adjustment ("EIA") that has been requested in Docket No. EL15-008. This mechanism is appropriate because the customer class allocation percentages for the EIA represent a fair allocation among the customer classes that were charged the PIPR. Therefore, this mechanism will result in an appropriate allocation of the credits/charges for each customer class. This mechanism is also appropriate for the remaining amounts because it provides the most efficient and timely way to provide refunds to customers with the least amount of administrative burden.

NOTICES

Notices regarding this Application should be sent to:

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IV. CONCLUSION

Wherefore, for the forgoing reasons, Company respectfully requests approval of its PIPR rider balance and method to refund the balancing account amounts.

Dated this 10th day of April, 2015.

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