
MEMORANDUM

To: Commissioners and Advisors

From: Jon Thurber, Brittany Mehlhaff, and Ryan Soye

RE: EL12-029 In the Matter of the Application of Black Hills Power, Inc. for the Approval of its Environmental Improvement Adjustment

May 11, 2012

On April 16, 2012, the Commission received a petition from Black Hills Power, Inc. (BHP or Company) for approval of its revised Environmental Improvement Adjustment (EIA). The Company requests the annual rate adjustment allowed under SDCL 49-34A-99 for the costs of the Wyodak Power Plant (Wyodak) environmental improvements approved in Docket EL11-001.

The EIA rider tracks the actual environmental costs and revenues received since the implementation of the rider on June 1, 2011. BHP proposed to include the projected second year revenue requirements associated with the previously approved Wyodak environmental improvements. The Company is not requesting cost recovery for any new environmental improvements in this filing.

The Company proposes to implement the following changes to rates (per kWh) to the respective customer classes effective June 1, 2012. According to the application, the decrease in rates is primarily due to the actual capital costs being less than forecasted.

	<u>Current Rates</u>	<u>Proposed Rates</u>
Residential	\$0.0021	\$0.0019
Small General Service	\$0.0026	\$0.0022
Large General Service and Industrial	\$0.0018	\$0.0015
Lighting	\$0.0027	\$0.0025

2011 – 2012 ENVIRONMENTAL COSTS AND RECOVERIES

The rates approved in Docket EL11-001 were based on the estimated costs of the environmental measures. In this docket, staff reviewed the actual environmental costs to determine if the costs were prudent and at the lowest reasonable cost to ratepayers. Staff also compared actual recoveries to actual costs to determine the under/over collection of costs to incorporate in the new EIA rates.

The estimated 2011 – 2012 revenue requirement from Docket EL11-001 was \$3,098,568. The actual 2011 – 2012 revenue requirement is \$2,927,710. The reflection of actual capital costs and the assessed filing fee from Docket EL11-001 resulted in the reduced revenue requirement. The over-collection of costs as of March 31, 2012, was \$119,685. BHP customers earn a 7% annual return on any over-collection, and the over-collection of 2011 – 2012 costs reduces the rates for the 2012 – 2013 Wyodak environmental costs.

Plant in Service – The Company estimated the South Dakota capital cost for sulfur dioxide and particulate matter emission control upgrades was \$23,470,061, and \$3,130,925 for the nitrogen oxides clean air initiative. The actual capital cost was \$22,889,060 and \$2,336,686, respectively. The primary cost savings for both projects was due to a contingency budget that was not used. The Company incorporated the associated changes to depreciation expense, property taxes, and accumulated deferred income taxes as a result of the lower capital costs. The net effect of these changes reduced the revenue requirement by \$145,111.

Filing Fee – BHP included the maximum assessed filing fee of \$50,000 in the estimated 2011 – 2012 revenue requirement. The actual filing fee assessed in Docket EL11-001 was \$24,253. The filing fee adjustment reduced the revenue requirement by \$25,747.

Balancing Account – In the original application, the Company calculated the balance in the rider by comparing the actual EIA revenues to the forecasted EIA revenues, and adjusted the balance for any difference between forecasted and actual costs. Staff had concerns that this method did not apply a carrying charge to the difference between actual and forecasted costs. BHP agreed to change the balance calculation to compare actual EIA revenues to actual EIA costs. These changes are reflected in the tariff on Section No. 3C, Sheet 20, and illustrated in the revised Exhibit 4, Schedule 4-1.2, filed on May 11, 2012.

2012 – 2013 EIA RATES

The 2012 – 2013 EIA rates are based on the balance in tracker account and the 2012 – 2013 Wyodak environmental revenue requirement. Since the Company did not request cost recovery for any additional environmental projects, staff’s review consisted of verifying the estimated revenue requirement calculation. BHP estimated the 2012 – 2013 Wyodak environmental revenue requirement at \$2,938,675. Unless otherwise noted, the changes discussed below are changes from the Company’s originally filed position.

Accumulated Depreciation – The Company proposed reflecting the beginning balance for accumulated depreciation in rate base. The revised cost of service reflects the average of the 13 month-end balances for accumulated depreciation.

Accumulated Deferred Income Taxes – BHP inadvertently used the 2011 – 2012 deferred income taxes attributable to bonus depreciation as the beginning balance for accumulated deferred income tax in the 2012 – 2013 revenue requirement calculation. The calculation now reflects the 2011 – 2012 year-end accumulated deferred income tax balance as the beginning balance in 2012 – 2013.

Filing Fee – The Company did not include a filing fee as an expense in the 2012 – 2013 revenue requirement. The revised revenue requirement reflects an estimated filing fee based on the assessment in Docket EL11-001. The actual amount billed to the Company will be reflected in the next annual filing.

Capital Structure – During discovery, the Company adjusted the capital structure and cost of debt to reflect the early retirement of Pollution Control Refund Revenue Bonds in the amount of \$6,450,000. The principal amount due on these bonds was reclassified to current maturities as of March 31, 2012. Each bond was due in 2014, and will be paid on May 15, 2012, using internally generated funds.

The net effect of these changes is an estimated 2012 – 2013 Wyoming environmental revenue requirement of \$2,953,675. A revised cost of service exhibit was filed on May 11, 2012, in support of the revenue requirement. The revised EIA rates per kWh for the respective customer classes effective June 1, 2012 would be:

	<u>Current Rates</u>	<u>Proposed Rates</u>
Residential	\$0.0021	\$0.0019
Small General Service	\$0.0026	\$0.0023
Large General Service and Industrial	\$0.0018	\$0.0016
Lighting	\$0.0027	\$0.0025

OTHER ISSUES

Annual Report of South Dakota Jurisdictional Earnings – The Settlement Stipulation (Stipulation) in Docket EL11-001 requires BHP to file its annual report of South Dakota jurisdictional earnings by June 1st each year beginning 2012. A June 1st submission would not allow the Commission adequate time to review the report prior to rendering a decision on the annual rate adjustment. BHP filed its 2011 report on May 11, 2012, at staff's request. BHP and Staff agreed to amend the Stipulation to require the filing by May 1st of each year beginning in 2013.

RECOMMENDATIONS

Staff recommends approving the 2012 Environmental Improvement Adjustment and the associated tariffs as filed on May 11, 2012.