

**BEFORE THE SOUTH DAKOTA  
PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF BLACK HILLS )  
POWER, INC.’S APPLICATION FOR )  
APPROVAL OF ITS ENVIRONMENTAL ) Docket No. \_\_\_\_\_  
IMPROVEMENT ADJUSTMENT )  
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**APPLICATION FOR ENVIRONMENTAL IMPROVEMENT ADJUSTMENT**

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Black Hills Power, Inc. (“Black Hills Power” or the “Company”), a South Dakota corporation, respectfully requests an order from the South Dakota Public Utilities Commission (“Commission”) approving the Environmental Improvement Adjustment (“EIA”) to its electric rates, to become effective on June 1, 2012. In support of its Application, Black Hills Power states as follows:

1. Black Hills Power is a public utility as defined under SDCL § 49-34A-1, with a business address of PO Box 1400, 625 Ninth Street, Rapid City, SD 57709.
2. This EIA filing is made in accordance with SDCL Chapter 49-34A, Sections 97 through 100, relating to approval of tariff mechanisms for automatic annual adjustment of charges for jurisdictional costs of new environmental measures. This Application sets forth the changes that the Company proposes to its EIA rate to be effective June 1, 2012. Black Hills Power requests that this rate adjustment be approved without the requirement of posting a bond or other security.
3. The EIA for Black Hills Power was approved in Docket No. EL11-001 (the “EL11-001 EIA”). The EL11-001 EIA consists of an environmental improvement adjustment for the jurisdictional allocation of eligible environmental improvement investments under SDCL §49-34A-97 for the Wyodak Power Plant. This application provides the second year revenue requirement and customer rates for the two environmental improvement projects

approved in EL11-001, along with the project cost true-up and an annual true-up as provided in the Settlement Stipulation for this Docket.

4. As provided in EL 11-001, Black Hills Power owns a twenty percent (20%) interest in the Wyodak Power Plant located at the Gillette Energy Complex near Gillette, Wyoming. PacificCorp owns the remaining 80% of the plant and is the operator. As a result of a Best Available Retrofit Technology (BART) analysis, in compliance with the Regional Haze rule (40 CFR51), two environmental projects were implemented at the Wyodak Power Plant. To achieve the BART SO<sub>2</sub> emission limit, it was necessary to replace the electrostatic precipitator (ESP) with a fabric filter or bag house on the Wyodak Plant. A bag house addition also allows compliance with the permitted particulate emission limit, and provides additional co-benefits associated with mercury removal and particulate matter emissions reductions. To reduce nitrogen oxide emissions and meet the BART permit requirements, low NO<sub>x</sub> burners were installed on the unit. This in-furnace combustion modification is designed to reduce NO<sub>x</sub> emissions produced in the boiler during the coal combustion process.
  
5. The second year EIA revenue requirement and customer rate calculations are provided in Exhibit 4. The calculation of the second year EIA revenue requirement calculation, shown on Schedule 4-1.1, starts with the finalized first year revenue requirement based on actual environmental improvement project costs and SD PUC filing fee assessment. The support for the one-time first year EIA revenue requirement is provided on Schedules 4-2 through 4-6. The finalized first year revenue requirement is then adjusted, eliminating the 2011 SD PUC filing fee expense, and updating rate base to account for accumulated depreciation, deferred federal income taxes, and the March 31, 2012 cost of debt and capital structure (Schedule 4-1.1 lines 4 and 5). As of March 31, 2012, Black Hill Power's weighted average cost of debt was 6.5% and the capital structure was 44.6% debt and 55.4% equity. The second year revenue requirement is allocated to the customer classes based on production capacity allocators used in Black Hills Power's last general rate case (Docket No. EL09-018). The second year revenue requirement by customer class is then adjusted for the first year over recovery of environmental project costs and

the annual balancing account under recovery true-up as provided in EL11-001 Settlement Stipulation (paragraphs 1 and 4 of the Elements of Settlement Stipulation). The adjusted second year revenue requirement by customer class is then divided by forecasted South Dakota kWh sales for the period June 1, 2012 through May 31, 2013 to determine the EIA rate by customer class (Schedule 4-1.1 lines 43 through 46).

6. This application also includes “housekeeping” updates to the tariff sheets. At the recommendation of South Dakota Commission Staff, the Table of Contents pages have been updated to eliminate the version numbering of tariff sheets. In addition, the word “replaces”, describing the retirement of tariff sheet numbers, has been changed to “cancels”. These changes should allow for administrative efficiencies and minimize confusion going forward.
  
7. The proposed EIA rate for each customer class is as follows:

	Environmental Improvement Adjustment Rate \$/kWh
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Residential Service	0.0019
Small General Service	0.0022
Large General Service and Industrial	0.0015
Lighting Service	0.0025

The environmental improvement adjustment rates are set forth in the Cost Adjustment Summary and Environmental Improvement Adjust tariff sheets contained in Exhibit No. 2 and No. 3, attached hereto.

8. Approximately 64,000 South Dakota retail customers are affected by the EIA rate change. The annual net decrease in the cost of service is approximately \$160,000 or 5.2% lower than the environmental improvement adjustment revenue billed to customers during the twelve months ending May 31, 2012. This decrease relates to the EIA rates, as shown in paragraph 7, for the twelve month period of June 1, 2012 through May 31, 2013.

9. Overall, the decrease to customers is primarily due to actual environmental improvement project costs less than forecasted.
10. Attached hereto as Exhibit No. 5 is a copy of the notice that has been provided to the public in accordance with ARSD § 20:10:13:15 and pursuant to §§ 20:10:13:17 to 20:10:13:19, inclusive.
11. In support of this Application, attached hereto and made a part hereof by this reference are Exhibit Nos. 1 through 5, showing supporting data for the proposed EIA:

<u>Exhibit No. 1</u>	Report of Tariff Change
<u>Exhibit No. 2</u>	Legislative Format of Tariffs
<u>Exhibit No. 3</u>	Clean Format of Tariffs
<u>Exhibit No. 4</u>	Environmental Improvement Adjustment Calculation
<u>Exhibit No. 5</u>	Notice to Customers

WHEREFORE, Black Hills Power respectfully requests that the Commission enter an order approving the proposed tariffs and EIA rate, and placing the rate into effect for service on and after June 1, 2012.

Dated this 16th day of April, 2012.

BLACK HILLS POWER, INC.

By: \_\_\_\_\_

Chris Kilpatrick

Director of Resource Planning and Electric Rates