

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

**APPLICATION OF
BLACK HILLS POWER, INC.
FOR AN ACCOUNTING AUTHORITY ORDER ALLOWING IT TO (1) USE
DEFERRED ACCOUNTING FOR COSTS INCURRED DUE TO WINTER
STORM ATLAS DAMAGE; AND (2) TRANSFER THE REMAINING PLANT
BALANCE FOR THE SOON TO BE DECOMMISSIONED NEIL SIMPSON I,
OSAGE, AND BEN FRENCH PLANTS TO A REGULATORY ASSET**

Docket No. ____

Filed: November 15, 2013

Black Hills Power, Inc. ("Black Hills Power" or "Applicant"), a South Dakota corporation, submits this Application to the South Dakota Public Utilities Commission ("Commission") pursuant to S.D.C.L. § 49-34A-7, which authorizes the Commission to prescribe the accounting to be used by any public utility subject to its jurisdiction. The reasons for this Application are twofold. First, Applicant respectfully requests an accounting order from the Commission permitting Applicant to accumulate and defer for recovery in base rate proceedings before the Commission its expenses incurred to repair damage and restore service to its customers as a result of Winter Storm Atlas. Second, Applicant seeks an accounting order authorizing it to transfer the remaining plant balance for the soon to be decommissioned Neil Simpson I, Osage, and Ben French plants to a regulatory asset.

In support, 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.

WINTER STORM ATLAS

2. Black Hills Power provides retail electric service to approximately 68,000 customers in 20 different communities throughout western South Dakota, northern Wyoming, and southeastern Montana.

3. From Thursday, October 3rd through Saturday, October 5th 2013, northeast Wyoming and western South Dakota experienced severe blizzard conditions.

4. Mid-day Friday, the Pennington County Sheriff's Office issued a no travel advisory for all areas in Pennington County west of New Underwood. As of Friday afternoon, Black Hills Power estimated there were about 8,000 customers without power.

5. By Friday evening, Black Hills Power estimated 15,800 customers were without power; including 8,700 customers in Rapid City, 1,800 customers in Lead-Deadwood, 2,200 customers in Spearfish, and more than 2,000 customers in the southern Black Hills.

6. By Saturday morning, the Pennington County Sheriff's Office closed all roads in Pennington County. The power situation throughout the Black Hills had also significantly worsened overnight. At the peak, Black Hills Power estimates around 41,800 of its customers were without power. Notably, this figure is in excess of 60 percent of Black Hills Power's total customer base.

7. The National Weather Service reported the following 3 day snow fall totals for the Black Hills area:

- Lead – 55”;
- Deadwood – 48” on the west side of town;
- Sturgis – 35” on the east side of town;
- Piedmont – 35”;
- Rapid City – up to 31” on the City’s southwest side; and
- Spearfish – 26” downtown.

During the height of the storm, wind gusts up to 71 miles per hour were recorded in some areas of our service territory. The heavy snow and high winds caused significant damage to trees and power lines in the affected areas and caused treacherous travel and working conditions. Because the storm occurred in early October, all deciduous trees were fully leafed. The combination of the leafed trees, heavy snow and high winds resulted in the extensive broken trees that contributed greatly to the damage caused to BHP facilities throughout its service territory.

8. Based on the weather forecast, Black Hills Power prepared for the effort it would take to respond accordingly to a storm of this potential magnitude. In particular, it put the following resources into action:

- Over 300 employees were called in from Black Hills Power’s affiliated utilities in the multi-state region;
- 38 tree cutting crews of more than 100 people from a multi-state region;
- 14 additional line crews, with over 100 people from partner utilities and contractors in South Dakota, Montana, Colorado and Wyoming were secured and staged at locations closer to BHP territory to reduce the overall restoration timeline;
- Helicopters, snow cats, tracked line trucks and other equipment necessary to work in rugged and snow covered terrain were employed.

9. In a press briefing on the afternoon of October 6th, emergency officials stated the first priority was getting power companies access to the sites they need. Rapid City officials closed all city offices and schools for Monday, October 7th.

10. Black Hills Power efforts to restore power to its customers continued through the day and night. Internal personnel as well as personnel dispatched from utilities in neighboring states supported this restoration effort. These crews averaged 13 to 16 hour days with an exemplary safety record during the restoration period. At the peak, these restoration efforts were carried out by over 500 employees and contractors. Many of these crews came from other states including North Dakota, Montana, Wyoming, and Colorado. Because Black Hills Power had an appropriate emergency response plan and began executing this plan prior to the storm, including timely activation of resources, it was able to restore power to 95% of its customer base in 6 days.

11. The personnel, material and equipment that were mobilized for this storm were critical to our success. These resources were greatly needed and resulted in power being restored to customers in a quicker fashion than otherwise would have been possible. Black Hills Power's need to secure additional resources was necessitated by the extraordinary number of downed lines including a significant number of secondary lines, lines impacted by tree damage, and the treacherous conditions that impeded its ability to access areas of damage. The number of downed lines and significant tree damage required restoration teams to physically look at nearly all customer locations, which added to the requirement to bring in a significant number of outside resources to assist with restoration.

12. Winter Storm Atlas has been determined to be the second heaviest snowstorm on record for Rapid City. On November 8, 2013, The U.S. Department of Homeland Security's Federal Emergency Management Agency issued a major disaster declaration for the state of South Dakota. Black Hills Power considers the outages caused by the storm to be the worst in the company's 130 year history.

13. Repairing the substantial and widespread damage was costly, and far exceeded average annual storm-related costs. Black Hills Power currently estimates that its Winter Storm Atlas related incremental costs will be approximately \$5 to \$6 million dollars. These costs are estimates based on actual and estimated costs incurred to date.

14. Incremental costs would include labor and benefits; meals and lodging; materials and supplies; and use of equipment and outside contractors. Of the total incremental cost, approximately \$2 to \$2.5 million will be to replace assets such as poles; wires or substation equipment. This amount will be included as rate base for the upcoming rate case and will not be part of the accounting order request. The remaining amount of \$3 to \$3.5 million that was incurred to patrol and scout the damaged areas, remove downed trees and limbs that had fallen into the distribution lines, and to repair service lines to residential and commercial customers; is requested to be included as a regulatory asset. However, Black Hills Power is performing due diligence to identify any federal or state assistance which if available, would offset this request.

15. Black Hills Power asks the Commission to enter an accounting order allowing it to accumulate as a regulatory asset and defer for future recovery in its next rate case its actual storm related incremental costs as described above. The measures Black Hills Power took to restore service and the associated costs were reasonable and prudent, and should therefore be recoverable as necessary costs of providing electric service to its customers. If approved, Black Hills Power will hold its deferred costs in Account No. 182.3, Other Regulatory Assets, until the Commission is afforded the opportunity to consider them in the next rate proceeding, which is expected to be filed in early 2014.

16. Permitting this treatment will allow Black Hills Power to make appropriate adjustments on its books for the regulatory asset and prevent it from having to record its extraordinary storm related incremental costs as expenses on its books all in one month.

17. Black Hills Power requests the Commission approve its requested accounting treatment at the earliest possible date, and no later than January 10, 2014, so that it can reflect the appropriate accounting on its books for the year ending December 31, 2013. This is necessary to avoid distortion in Black Hills Power's year-end financial statements filed with the SEC, the accuracy of which is important to maintain.

DECOMMISSIONING

18. The operation of the Neil Simpson I plant in Campbell County, Wyoming, the Osage plant in Weston County, Wyoming, and the Ben French plant in Pennington County, South Dakota, will be discontinued for the following reasons:

- a. The Environmental Protection Agency ("EPA") issued the National Emission Standards for Hazardous Air Pollutants for Area Sources: Industrial, Commercial, and Institutional Boilers ("Area Source Rules"). The Area Source Rules are designed to reduce emissions of hazardous air pollutants from various small boilers, to include coal-fired units of 25 MW or less. Specifically, the rules implement: (1) new emission requirements for mercury and carbon monoxide; (2) work practice standards addressing startup and shutdown and energy assessments; (3) operating restrictions defining mercury sorbent injection rates and coal quality; (4) continuous monitoring; and (5) compliance testing. Compliance with these rules requires the addition of emission controls, installation of monitoring

equipment, restrictions on quality of coal received and adherence to new operating parameters established during the compliance test. The deadline for compliance with the Area Source Rules is March 21, 2014.

- b. Black Hills Power owns three coal-fired power plants equipped with boilers of 25 MW or less and subject to the Area Source Rules: Neil Simpson I, Osage, and Ben French. The Neil Simpson I, Osage, and Ben French units have been in service since 1969, 1952, and 1960, respectively. These rules require either (1) the retrofit of expensive new environmental controls on Neil Simpson I, Osage, and Ben French, or (2) retirement of affected units.
- c. If these older facilities are to continue to operate with new emission controls to meet the Area Source Rules, life extension upgrades would also be required. It is highly likely that if life extension upgrades are made to these units, the EPA will initiate New Source Review (“NSR”) investigations which historically have led to significant capital costs to meet Best Available Control Technology emission limits similar to those of new plants. Additionally, NSR now requires adherence to the Green House Gas New Source Performance Standard (“GHGNSPS”) implemented in 2012 by the EPA. The GHGNSPS requires coal-fired plants that impact thresholds of greenhouse gas emissions to install carbon capture and sequestration within 10 years and achieve carbon emission limits equal to natural gas-fired power plant emissions.

- 19. As a result of these factors, as well as the likelihood of additional future EPA

regulations affecting the continued operation of these facilities, Black Hills Power concluded that the most cost effective plan for EPA compliance is to retire Neil Simpson I, Osage, and Ben French by March 21, 2014.

20. The accounting treatment of unrecovered plant investment and removal costs associated with the decommissioning of Neil Simpson I, Osage, and Ben French is described below:

- a. The capital costs associated with the units were recorded in plant in service at original cost. The capital recovery of investments is achieved through depreciation expense that is included in customer rates. As depreciation expense is incurred over time, the cumulative effect of depreciation is aggregated in accumulated depreciation. The net book value of the generation units, plant in service minus accumulated depreciation, is reflected in rate base.
- b. In 2009, Black Hills Power retained Black & Veatch to perform a depreciation study related to its electric plant. A depreciation study determines the components of depreciation expense including original cost, estimated cost of removal, estimated salvage value, and estimated service life. The original cost of an asset is increased by the estimated cost of removal expected to be incurred at the end of the asset service life and is reduced by the estimated amount of salvage value expected to be received from the retirement of the asset. The net result is divided by the estimated service life of the asset to arrive at the estimated depreciation expense associated with the underlying asset. The activity and balances associated

with accumulated depreciation is broken out further by separate subsidiary accounts in order to track amounts associated with original cost depreciation reserve, estimated cost of removal, and estimated salvage. The depreciation rates for the units were approved by the Commission and used to develop the revenue requirement in Black Hills Power's last two general rate cases, Docket Nos. EL09-018 and EL12-061.

- c. Black Hills Power proposes to depreciate Neil Simpson I, Osage, and Ben French using existing rates until September 30, 2014. On September 30, 2014, the original capital cost will be removed from FERC Account 101 (Electric Plant in Service) and the same amount will be moved into FERC Account 108 (Accumulated Depreciation).

21. The Company requests an accounting order authorizing it to transfer the plant balance to a regulatory asset. As costs associated with decommissioning are incurred, the accumulated provision for depreciation associated with cost of removal will be reduced. The Company requests that the decommissioning costs in excess of the reserve associated with cost of removal be included in the regulatory asset. Exhibit 1 provides a breakdown by unit of actual 6/30/2013 plant in service and accumulated depreciation balances, estimated plant in service and accumulated depreciation balances at 9/30/2014, estimated decommissioning costs, and an estimated regulatory asset that will be established to account for unrecovered costs.

22. For ratemaking purposes, a regulatory asset associated with Neil Simpson I, Ben French, and Osage will be included as a component of rate base and an associated amortization included as a component of the revenue requirement. Black Hills Power expects

these costs to be reviewed for recovery and amortization over a period of years during the next general rate case, which will be filed in early 2014.

23. In support of this Application, the Company submits:

Application

Exhibit 1: Breakdown by unit of actual plant in service and depreciation costs.

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

Chris Kilpatrick, Director of Rates
Black Hills Power, Inc.
P.O. Box 1400 – 625 Ninth Street
Rapid City, South Dakota 57709-1400
(605) 721-2748
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with a copy to:

Amy K. Koenig, Corporate Counsel
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P.O. Box 1400 – 625 Ninth Street
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(605) 721-1166
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with a copy to:

Vance Crocker, Vice President Electric Operations
Black Hills Power, Inc.
P.O. Box 1400 – 625 Ninth Street
Rapid City, South Dakota 57709-1400
(605) 721-2226
Vance.Crocker@blackhillscorp.com

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


1. Enter an accounting order, at the earliest possible date but no later than January 14, 2014, allowing Applicant to use deferred accounting for costs incurred as a result of Winter Storm Atlas; and

2. Enter an accounting order authorizing Applicant to transfer the remaining plant balance for the soon to be decommissioned Ben French, Osage, and Neil Simpson I plants to a regulatory asset.

Dated this 15th day of November, 2013.

BLACK HILLS POWER, INC.

By:


Chris Kilpatrick
Director of Rates