

**From:** PUC  
**Sent:** Friday, January 17, 2014 7:54 AM  
**Subject:** FW: Black Hills Power Rate Increase

Ms. Fleishacker:

Thank you for your messages regarding Black Hills Power's storm-related costs. The Public Utilities Commission approved BHP's request for deferred accounting regarding expenses from storm Atlas during last week's commission meeting for docket EL13-036. The approval applies to the interim accounting of these storm expenses, allowing BHP to set aside these expenses for accounting purposes so they may be reviewed for *possible recovery* during a rate case. The commission's approval of this accounting method does not translate to approval of the costs. The commission will review these separate expenses during the next BHP rate case to determine if any are reasonable and legally allowable for rate recovery.

The company is expected to file their next rate case this spring. Only those expenses that meet these standards will become part of the company's rates for the period of time approved in that case.

We understand your concern with increasing expenses. As you indicate, BHP is a monopoly. And because it is a public utility, it must operate within specific laws that govern it and which the PUC must follow in regulating it. This includes the review and allowance of reasonable, just costs to operate the utility. The PUC cannot simply say no to any rate increase the utility requests to implement, regardless of justification or need. The law lays out the parameters in which a public utility (monopoly) must operate and the commission must regulate. The expenses borne by Black Hills Power's ratepayers are separate from the non-utility expenses borne by Black Hills Corporation, as required by law.

Many confuse the two entities. BHC owns several business entities, including BHP. The expenses of BHP are what the PUC regulates, not BHC in its entirety. The executive salaries many point to are typically those paid by BHC to its key officers. A percentage or fraction of these salaries are paid for by BHP ratepayers since BHP is just one entity (a highly regulated entity) within the overall BHC corporate structure and those executives receive a percentage of their salaries from the other BHC-owned entities as well. We realize this gets rather complicated, however, it is worth pointing out why the public utilities portion must be separated and regulated by law, including executive compensation.

This same process applies to BHP's demolition and building of power plants. Those expenses must be borne by BHP and as authorized by law, those are appropriate and allowable expenses for the public utility. The PUC cannot simply say no, we won't consider or approve that cost. We must thoroughly analyze and determine what expenses are reasonable and just and must be paid for by the customers for which the plants provide power.

A utility rate case typically takes approximately a year to completely process, from initial filing to decision. Along the way, many documents and spreadsheets are analyzed, many questions are asked of company officials for further investigation by commissioners, staff and intervenors, and commissioners must ultimately make decisions within the boundaries of federal and state laws that govern utilities and regulators. When BHP does file its next rate case, we can assure you that commissioners, staff and intervenors will carefully scrutinize all costs and cost justifications. We appreciate your concern since we all rely on utilities for our homes and thus, we are all sensitive about utility costs.

You may wish to follow BHP's future filings and rate cases to become informed of the process. These filings are added to our web site at [www.puc.sd.gov](http://www.puc.sd.gov). Your comment will be added to the EL13-036 docket. A document which you may find of interest is titled Electric Rate Increase Requests as it explains the rate case process: <http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

Commissioner Gary Hanson

Commissioner Chris Nelson

Commissioner Kristie Fiegen