

From: PUC
Sent: Monday, January 13, 2014 3:40 PM
To: 'rlarson@lawrence.sd.us'
Subject: FW: Black Hills Power rate increase
Attachments: Larson, Letter RE BHP Costs, Jan. 2014.doc

Dear P. René:

Thank you for your comments regarding Black Hills Power's storm costs and plant closures. Last week, the Public Utilities Commission approved BHP's request to use deferred accounting for costs related to winter storm Atlas that occurred in October 2013 and to transfer the remaining plant balance for the soon to be decommissioned plants to a regulatory asset. This approval references only the interim handling of these expenses, i.e. allowing the storm-recovery-related costs, unrecovered investments and decommissioning costs to be set aside for BHP's accounting purposes so that the costs can be reviewed for possible recovery at a later date. The commission's approval of the accounting method does not mean approval of the costs. The commission will review the recovery of expenses to determine whether any of them are reasonable and thus, allowable for rate recovery in a future BHP rate filing. When BHP files their next rate case, which is expected this spring, the commission will then fully investigate and analyze whether passing on any of these costs to BHP's customers is appropriate and must be allowed within state law.

You indicated that most large entities have a fund set aside to address unforeseen expenses to the company and if BHP had done so, the storm costs would have been funded. BHP is a public regulated utility as opposed to a private business. In order for costs to be allowed in a regulated utility's rates, they must be known and measurable. If such a regulated utility were to include extraordinary expenses in rates in an effort to plan for a one-time event, it would be inappropriate and not allowed by law. The expenses included in the company's cost of service for which customers are paying must be justified. A regulated utility such as BHP must provide ubiquitous service. That requirement as well as state law and legal precedence will guide the commission in determining what costs, if any, are allowed for cost recovery in BHP's next rate case.

You mentioned that Storm Atlas was declared an emergency and therefore BHP will receive federal and state assistance. BHP is evaluating viable options for federal financial assistance. However, such funds are typically not allowed or greatly limited for investor-owned utilities. Any reimbursement from government or insurance will directly reduce expenses passed on to customers. The commission will review the company's future rate application to ensure viable options for assistance were explored and applied.

Your letter mentions that if BHP would have been proactive and kept trees out of power lines much of the damage would have been mitigated. BHP has been and still is on an accelerated tree trimming cycle. However, the unusual circumstances of this storm, including leaves still being on trees and heavy moisture, caused significant damage. These circumstances and the company's tree trimming activities will be examined in the company's future rate case. Ratepayers pay for tree trimming and such expenses involve a balance of risk and cost.

Regarding the plant closures, you mention the company knew this was coming and should have planned for it. Again, BHP is a regulated public utility. In order for expenses to be allowed in rates, they must be known and measurable. Until the final EPA rules came out and studies were performed on the economics of continuing to operate the plants, BHP would not have been allowed to include these speculative costs in rates. While the decommissioning process may take approximately one year to complete, customers will not pay all these costs

in one year. Any cost recovery will take place over multiple years and the length of time will be determined in a future rate case.

We understand rate increases are difficult to handle, especially for individuals and businesses with limited means to increase income or revenue. We assure you none of the PUC Commissioners or staff wish to increase utility rates for South Dakotans. We are consumers as well and understand how increased costs affect us all. Please be assured that we take our jobs seriously as we carefully review rate filings and process them according to state law.

We appreciate your comments and encourage you to follow BHP's future filings regarding these issues. You can do so via www.puc.sd.gov Click on Commission Actions, Commission Dockets, Electric Dockets, and 2014, then scroll the list of electric dockets filed to find the one you are seeking. Your comments will be added to the current EL13-036 docket in which this accounting method was considered by the commission:
<http://www.puc.sd.gov/Dockets/Electric/2013/EL13-036.aspx>

Sincerely,

Commissioner Gary Hanson

Commissioner Chris Nelson

Commissioner Kristie Fiegen