

From: PUC
Sent: Wednesday, January 22, 2014 3:17 PM
To: [REDACTED]
Subject: FW: BH Power

Ms. Ward:

Thank you for your message about Black Hills Power's costs. The Public Utilities Commission approved BHP's request for deferred accounting regarding expenses resulting from the October 2013 storm Atlas, during the last commission meeting. This approval applies only to the interim accounting of these storm expenses. It allows BHP to set aside these costs for accounting purposes so they may be reviewed for possible recovery during a future rate case. The commission's approval of this accounting method does not mean approval of the costs. The commission will review these separate expenses during a rate case to determine if any are reasonable and allowable for rate recovery in a later rate filing.

When the company files their next rate case, expected this spring, the commission will then fully analyze the costs to determine if they are appropriate and allowable under state law. Only those expenses that meet these standards will become part of the company's rates for the period of time approved in that case.

The costs BHP encounters in demolition of an old power plant and building a new one will also be analyzed and those that are reasonable and just according to the law will become part of the company's rates for that power. That is within the law for public utilities. BHP cannot legally save money by charging in advance for a catastrophic storm or a power plant that may never happen or be built. As far as the utility burying power lines, that has been suggested several times by consumers and has been the subject of several discussions. The cost to bury lines is significant and when an outage occurs, the time and expense to locate and repair the outage is often significant as well. Therefore, most utilities in the state have refrained from going to buried lines for most of their power distribution. However, it is a topic that is raised and debated regularly and will continue to be as technology changes and improvements in infrastructure are needed.

I appreciate your concern with increasing costs. All of us deal with them with regard to utilities as well as most goods and services. You mentioned that BHP is a monopoly. It is also a public utility. That means it must operate within specific laws that govern it and for which the PUC is charged with regulating. This includes the review and allowance of reasonable, just costs to operate the utility – potentially including insurance costs, storm recovery costs beyond insurance reimbursements, demolition of old plants and construction of new plants. 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 must operate and the commission must regulate. A utility rate case takes about a year to process, from the first filing to decision. Meanwhile, many documents and much data are analyzed, and many questions are asked of the company for further investigation by commissioners and staff. Commissioners must ultimately make decisions within the boundaries of the laws that govern utilities and regulators.

The expenses borne by BHP'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. Those executives receive a percentage of their salaries from the other BHC-owned entities as well,

some regulated by other entities and others, not. We realize this gets complicated, however, it is worth pointing out why the public utilities portion must be separated and regulated by law, including executive compensation.

I encourage you to review BHP's future filings and rate cases to become informed of the process. These filings may be found at www.puc.sd.gov and your comment will be added to the EL13-036 docket in which this accounting method was acted on by the commission.

With regard to the unwanted phone calls you relayed that you're receiving, I have asked a PUC Consumer Affairs staff member to follow up with you separately on that matter.

Thank you for contacting me to make me aware of your concerns.

Vice Chairman Chris Nelson
South Dakota Public Utilities Commission
www.puc.sd.gov