
From: PUC

Sent: Thursday, March 27, 2014 4:30 PM

To: [REDACTED]

Subject: BLACK HILLS POWER

Mr. Wilkins:

Thank you for your inquiry seeking clarification regarding Black Hills Power's services and rates. Following are my responses to your questions.

Question: *Can BHP make us or are they making us help pay for cleanup from the October blizzard?*

Answer: In January 2014, the Public Utilities Commission approved BHP's request to use deferred accounting for costs related to winter storm Atlas that occurred in October 2013. This approval was for only the interim handling of these expenses, allowing for BHP to set aside costs associated with the storm in order to potentially seek recovery of those costs in the future. The commission's approval did not allow BHP to include the storm costs in their rates. As such, BHP customers are not paying for cleanup from the October blizzard at this time.

It is likely that BHP will seek recovery of winter storm Atlas cleanup costs in their next rate case, which is expected this spring. During the rate case, the commission will analyze the storm-related costs to determine if they are allowed to be recovered from rate payers according to state law. Only expenses that meet the standards set forth in state law will be included for recovery through BHP's rates.

Question: *Why are South Dakotans paying for energy plants for BHP in Gillette and Cheyenne? Seems like the bank should loan that money or they save up to build these, not raise rates so we can finance them and the rates never go down.*

Answer: Electric utilities such as BHP are required by law to provide safe and reliable service to customers. This means BHP must add new power plants to its system to ensure enough generating capacity available to meet customer demand. Typically, new plants are built to either replace old plants (when they are retired) or meet new customer demand for electricity. Utilities attempt to build new power plants in locations that minimize costs and, thus, tend to locate plants next to existing transmission lines or fuel sources. As such, the best location for a new power plant may not be immediately adjacent to the customers or located in the same state as the customers.

BHP's South Dakota customers consume more electricity than the utility generates within the state, so a portion of the electricity is generated at BHP's power plants in Wyoming. The electricity is carried to South Dakota customers via the transmission grid. Since Wyoming plants are used to supply electricity to South Dakota customers, South Dakotans must pay for their share of the plants. The opposite is also true in some cases, such as at the Big Stone power plant located near Milbank, S.D. which generates electricity used by many of Otter Tail Power's customers in Minnesota. During utility

rate cases filed with the commission, the portion of power plant costs to be recovered by South Dakota customers is determined through extensive study. The commission only authorizes recovery of power plant costs that are specific to producing electricity for South Dakotans.

New power plants are expensive to build. Utilities raise money for power plant construction by acquiring financing through the capital markets, e.g. issuing new mortgage bonds, and through the use of owners' equity, e.g. issuing new company stock. When lenders and shareholders provide money to utilities to build power plants, they expect to receive a certain return on the monies lent/invested. State law allows utilities to recover their investments and earn a return on these investments that is sufficient to cover the cost of capital, i.e. to pay interest on debt and dividends to shareholders. The recovery of these power plant capital expenditures are spread out over the useful life of the plant and included in customer rates over this period of time. Once a power plant is shut down and no longer used to produce electricity, the capital expenditures for that plant are no longer included in rates. However, customers do not typically see a decrease in their bill because a utility must build a new power plant to replace the old plant and also makes other ongoing investments in its electrical system in order to maintain safe and reliable service for its customers.

Question: *I built a energy efficient all electric home so I could save money but my monthly bill has doubled in the last 4 years, can you explain?*

Answer: There are a number of factors that impact your monthly electric bill. Without knowing your specific situation, it is difficult for me to explain why your bill has doubled in four years. However, as you are likely aware, the two main factors used to calculate your total bill are the amount of electricity you consume during the billing cycle and the rate (\$/kWh) charged for that electricity.

In order to determine if your bill doubled due to usage, I first recommend that you review your monthly usage history over the past four years. You may find that that your usage increased this past winter due to colder temperatures occurring as a result of the polar vortex. You could also review a history of the average monthly outdoor air temperatures that occurred during the same time. Air temperatures affect electricity usage since the duration of time electric heaters and air conditioners operate is dependent on the ambient air temperature (should the indoor thermostat be set at a constant temperature). Another factor is that although consumers make energy efficient improvements and use more energy efficient appliances in their homes, they often also add new electrical devices (such as televisions, DVRs, iPads, wireless chargers, etc.) which increase their electric usage.

If your monthly electricity usage did in fact remain constant, or decrease over the past four years, then a review of rates charged by BHP could explain some of the increase in your electric bill. However, it does not explain why your bill doubled. During the past four years, the commission approved an increase to BHP's base rates two times, approved the implementation of an Environmental Improvement Adjustment, and approved an additional rider called the "Phase-in Plan Rate" for recovery of Cheyenne Prairie Generating Station financing costs incurred during construction. Commission approval of two base rate increases resulted in an increase to BHP's retail revenues of 12.7 percent in 2010 and an increase of 6.39 percent in 2013. The Phase-in Plan Rate was first implemented on April 1, 2013 and allows BHP to change rates on a quarterly basis, with the total phase-in increase during the phase-in term estimated at 3 to 4 percent. The phase-in rate process will continue until the plant is completed. BHP's EIA was approved by the commission in 2011. BHP subsequently shifted cost recovery of these environmental improvements to base rates in its most recent rate case and thus the current EIA rates are only recovering a small remaining balance. In addition, BHP's Energy Cost Adjustment rates are adjusted annually to recover the costs of fuel and purchased power and certain transmission costs and these rates may either increase or decrease. BHP also has an Energy Efficiency Solutions Adjustment which is further discussed below. The impact of the increases and decreases to these various charges on an individual customer's bill will vary depending on rate schedule and customer usage.

Finally, should you find that your usage did not change over the past four years and your monthly bill did in fact double, please contact the PUC's Consumer Affairs staff by calling 1-800-332-1782 or emailing PUCConsumerInfo@state.sd.us and provide your bills so these can be reviewed by staff to determine the cause or problem, and make inquiries to BHP specific to your situation.

Question: Why can bhp disclose what the RATE of "Cost Adjustment Summary" on the bill, seems like a good way to print whatever number they want for a rate of whatever they want. They cant even explain it to me when I call and ask.

Answer: BHP's "Cost Adjustment Summary" includes a number of cost categories including: Fuel and Purchased Power, Transmission Costs, Environmental Improvement Costs, Energy Efficiency Solutions Adjustment, and a Transmission Facility Adjustment. Further detail on these cost categories is provided within BHP's tariff. The following is an excerpt from BHP's current tariff which provides an overview of costs recovered through the "Cost Adjustment Summary." Note that these overall costs are scrutinized by the commission before BHP is allowed to recover them from customers. These cost categories have been approved by the South Dakota Legislature, allowing investor-owned utilities to collect them from their customers with regulatory oversight by the commission.

COST ADJUSTMENT SUMMARY

Rate Schedule	Base Costs ¹	ECA ²	EIA ³	EESA ⁴	TFA ⁵	Total Rate (\$/kWh)	
Residential Services	\$0.0227	\$0.00352	\$0.0005	\$0.0004	\$0.0000	\$0.02712	(R)
Small General Service	\$0.0227	\$0.00402	\$0.0005	\$0.0002	\$0.0000	\$0.02742	(R)
Large General Service	\$0.0227	\$0.00362	\$0.0003	\$0.0002	\$0.0000	\$0.02682	(R)
Industrial Contract Service	\$0.0227	\$0.00302	\$0.0003	\$0.0002	\$0.0000	\$0.02622	(R)
Lighting Service	\$0.0227	\$0.00362	\$0.0002	\$0.0002	\$0.0000	\$0.02672	(R)

¹Base Costs are comprised of:

Base FPP Costs of \$0.0146/kWh as approved by the South Dakota Public Utilities Commission (the Commission) in Docket EL09-018; prior to June 16, 2013 the Base FPP Costs were recovered through base rates

Base Transmission Costs of \$0.0081 as approved by the Commission in Docket EL09-018; prior to June 16, 2013 the Base Transmission Costs were recovered through base rates

²Energy Cost Adjustments (ECA) is comprised of:

Fuel and Purchased Power Adjustment (FPPA) Sheet No. 12
(Effective June 16, 2013)

Transmission Cost Adjustment (TCA) – Sheet No. 17

Fuel and Purchase Power Adjustment (FPPA) Sheet No. 1
(Effective June 16, 2013)

³Environmental Improvement Adjustment (EIA) – Sheet No. 20

⁴ Energy Efficiency Solutions Adjustments (EESA) Sheet No. 21

⁵ Transmission Facility Adjustment (TFA) Sheet No. 22

Question: Tired of rate increases when my paycheck doesn't see the same increase...they need a rate DECREASE and help out customers. I would switch electric companies like cable tv if I could.

Answer: The commission takes rate increase requests very seriously. We understand that most South Dakotans live on fixed incomes and any increase in electric rates will adversely affect an individual's or family's budget. However, BHP incurs costs in providing electricity to customers, and those costs are legally allowed to be recovered so the utility can provide safe, reliable service. The need for an electric rate increase may result from either an increase in utility operating costs or a decrease in electric revenues (sales). Operating costs may increase due to inflation, electric system investment/upgrades, new power plant investment, or a change in the cost of capital. Electric revenues may decrease

due to a downturn in the economy, customer energy conservation, or new energy efficient technologies. No matter the reason driving BHP's rate increase request, the commission is required by law to thoroughly analyze each rate increase request before approving, denying, or modifying the request. When considering a rate case, the commission weighs the public's need for adequate, efficient, and reasonable service and the need for the utility to collect revenues to enable it to meet its cost of providing electric service and the opportunity to earn a fair and reasonable return. The commission does this by using definitions, standards, and references specified in South Dakota Codified Law enacted by South Dakota's Legislature.

Question: *I could get a better water heater if I had butte electric and they would help find part of it. bhp has junky incentives to upgrade.*

Answer: Without knowing the specific details of Butte Electric's water heater program, I cannot speak as to why they offer a rebate amount that is attractive to you, whereas BHP does not. What I can do is provide some insight on BHP's Energy Efficiency Programs.

When developing energy efficiency programs, such as rebates for water heaters, BHP establishes a rebate level utility officials believe will maximize electricity savings while minimizing program costs. BHP's energy efficiency programs are funded with money collected from rate payers through the Energy Efficiency Solutions Adjustment (refer to my response on your "Cost Adjustment Summary" question). Any increase in rebates provided to customers will ultimately result in a slight increase to BHP's customers' electric bills. As such, BHP establishes programs and rebate levels company officials believe provide economical energy savings at a reasonable cost.

The commission reviews, adjusts as needed and approves BHP's energy efficiency programs before their costs are recovered from customers. The commission does not instruct BHP as to what energy efficiency programs to offer or the funds that should be rebated. However we do expect their energy efficiency programs to meet at least one of two requirements: First, the programs should be cost-effective, i.e. the value of the energy saved should be greater than the cost of achieving those savings. Second, the programs should allow all BHP customer classes to participate in at least one of the programs, i.e. a wide range of programs should be offered from lighting rebates to geothermal installation rebates. If the commission deems BHP's programs will benefit customers in the long run, then BHP's program costs are typically approved for recovery. However, the commission also strives to ensure that recovery of energy efficiency program costs do not add an unreasonable burden on customers.

Butte Electric is a rural electric cooperative which means it is owned and operated by the co-op members it serves. Municipal electric systems are treated likewise by law, since they are owned and managed by the citizens of a municipality. Therefore, co-ops and municipal electric systems are not subject to the commission's rate regulation mandated by state law as are BHP and the five other investor-owned electric utilities in South Dakota.

I appreciate the opportunity to answer your questions and provide background which I hope is of value to you. Your message and this response will be added to the PUC's EL13-036 docket which addressed BHP's storm recovery cost's deferred accounting, available at www.puc.sd.gov. Again, please contact the commission's Consumer Affairs staff if you wish to seek assistance in reviewing and determining the increases specific to your BHP bills.

Gary Hanson, Chairman
South Dakota Public Utilities Commission
