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**STAFF MEMORANDUM**

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** BRITTANY MEHLHAFF AND KAREN CREMER  
**RE:** Docket EL13-009 - In the Matter of the Application of Black Hills Power, Inc. for Approval of its Environmental Improvement Adjustment  
**DATE:** May 14, 2013

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On April 30, 2013, the Commission received a petition from Black Hills Power, Inc. (BHP or Company) for approval of its revised Environmental Improvement Adjustment (EIA). The Company requests the annual rate adjustment allowed under SDCL 49-34A-99 for the costs of the Wyodak Power Plant (Wyodak) environmental improvements approved in Docket EL11-001.

The EIA rider was implemented on June 1, 2011, as a result of Docket EL11-001. In Docket EL12-029, the Commission approved the Company’s projected second year EIA revenue requirements associated with the previously approved Wyodak environmental improvements, including the true-up of the first year actual costs and revenues.

In the current filing, Docket EL13-009, BHP provides the third year revenue requirement for the Wyodak environmental improvements approved in Docket EL11-001 as well as the annual true-up of actual costs and revenues received through the EIA rider in year 2. The Company is not requesting cost recovery for any new environmental improvements in this filing.

The Company proposes to implement the following changes to rates (per kWh) to the respective customer classes effective June 1, 2013. According to the application, the decrease in rates is primarily due to two and a half months of cost recovery reflected in the 2013 EIA revenue requirement compared to twelve months of cost recovery in the 2012 EIA revenue requirement, as the Company has proposed to shift cost recovery of the Wyodak environmental improvements from the EIA rider to base rates.

	<u>Current Rates</u>	<u>Proposed Rates</u>
Residential	\$0.0019	\$0.0005
Small General Service	\$0.0023	\$0.0005
Large General Service and Industrial	\$0.0016	\$0.0003
Lighting	\$0.0025	\$0.0002

**YEAR 2 ENVIRONMENTAL COSTS AND RECOVERIES**

The rates approved in Docket EL12-029 were based on the balance in tracker account and the 2012 – 2013 (second year) Wyodak environmental revenue requirement. In this docket, Staff reviewed the second year revenue requirement calculation and compared actual recoveries to actual costs to determine the under/over collection of costs to incorporate in the new EIA rates.

The estimated second year revenue requirement from Docket EL12-029 was \$2,953,675. The actual second year revenue requirement is \$2,931,558. BHP included the filing fee assessed in Docket EL11-001, \$24,253, as an estimate for the filing fee in the 2012-2013 revenue requirement. The reflection of the actual assessed filing fee from Docket EL12-029, \$2,136, resulted in the reduced second year revenue requirement. The over-collection of costs as of March 31, 2013, was \$85,775. BHP customers earn a 7% annual return on any over-collection, and the over-collection of 2012 – 2013 costs reduces the 2013 – 2014 EIA rates.

### **2013 – 2014 EIA RATES**

The 2013 – 2014 EIA rates are based on the balance in tracker account and the 2013 – 2014 (third year) Wyodak environmental revenue requirement. Since the Company did not request cost recovery for any additional environmental projects, staff's review consisted of verifying the estimated revenue requirement calculation. BHP estimated the 2013 – 2014 Wyodak environmental revenue requirement at \$593,921. Staff agrees with the estimated revenue requirement and proposed rates to be effective June 1, 2013.

**Shift in Cost Recovery** – The Company proposed to shift cost recovery of the Wyodak environmental improvements from the EIA rider to base rates in Docket EL12-061. As interim rates will be effective on and after June 16, 2013, the revenue requirement associated with 2013-2014 EIA rates only recovers the Wyodak environmental improvement costs for the period of April 1, 2013, through June 15, 2013. Staff verified the calculations accurately reflect the appropriate time period.

**Filing Fee** – The Company included an estimated filing fee based on the assessment in Docket EL12-029. The actual amount billed to the Company will be reflected in the next annual true-up filing.

**Rate of Return** – The third year rate of return reflects the use of the actual capital structure and debt costs as of March 31, 2013, as stipulated to in Docket EL11-001. The Company proposed to continue to apply a **Begin Confidential** [REDACTED] **End Confidential** ROE as was reflected in Dockets EL11-001 and EL12-029. As Staff is currently conducting a review of BHP's ROE in Docket EL12-061, Staff believed it was necessary to reflect a current evaluation of equity costs in this docket as well. Staff proposed, and the Company accepted, to apply the **Begin Confidential** [REDACTED] **End Confidential** ROE for purposes of determining the rates to be effective June 1<sup>st</sup>, 2013, with the condition that this ROE be revised next year during the true-up of year three to reflect the ROE determined as a result of either settlement or Commission decision in Docket EL12-061. Staff recommends the Commission Order reflect this condition. Please see Attachment 1 to the Staff Memorandum for documentation regarding BHP's acceptance of Staff's proposal.

### **OTHER ISSUES**

**Annual Report of South Dakota Jurisdictional Earnings** – The Settlement Stipulation (Stipulation) in Docket EL11-001 required BHP to file its annual report of South Dakota jurisdictional earnings by June 1<sup>st</sup> each year beginning 2012. In 2012, BHP and Staff agreed to amend the Stipulation to require the filing by May 1<sup>st</sup> of each year beginning in 2013 and filed an Amendment to Settlement Stipulation with the Commission. The Commission approved the Amendment to Settlement Stipulation on the condition that the annual report submission deadline is changed to April 15<sup>th</sup> instead of May 1<sup>st</sup> as proposed.

Therefore, Staff and BHP submitted an Amendment to Settlement Stipulation II to incorporate the Commission's condition. On April 4, 2013, BHP filed a letter with the Commission requesting the Commission accept Statements A through R and Work Papers 1 through 4 submitted in Docket EL12-061 as BHP's annual report. The Commission issued an Order Accepting Rate Case Submission as Annual Report of Jurisdictional Financial Condition on April 24, 2013. Staff and BHP agree it is appropriate to amend the Stipulation in order to include an exception to the annual reporting requirement if the Company has a pending rate case filed with the Commission or a rate case docket has been completed within the last twelve months. Please refer to the Third Amendment to Settlement Stipulation filed in Docket EL11-001.

### **RECOMMENDATIONS**

Staff recommends approving the 2013 Environmental Improvement Adjustment and the associated tariffs as filed in the Company's application dated April 30, 2013, with the condition regarding ROE discussed above.