

**BEFORE THE SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF BLACK HILLS)
POWER, INC.'S APPLICATION FOR)
APPROVAL OF ITS ENVIRONMENTAL) **Docket No. _____**
IMPROVEMENT ADJUSTMENT)
)

APPLICATION FOR ENVIRONMENTAL IMPROVEMENT ADJUSTMENT

Black Hills Power, Inc. (“Black Hills Power” or the “Company”), a South Dakota corporation, respectfully requests an order from the South Dakota Public Utilities Commission (“Commission”) approving the Environmental Improvement Adjustment (“EIA”) to its electric rates, to become effective on June 1, 2013. In support of its Application, Black Hills Power states as follows:

1. Black Hills Power is a public utility as defined under SDCL § 49-34A-1, with a business address of PO Box 1400, 625 Ninth Street, Rapid City, SD 57709.

2. This EIA filing is made in accordance with SDCL Chapter 49-34A, Sections 97 through 100, relating to approval of tariff mechanisms for automatic annual adjustment of charges for jurisdictional costs of new environmental measures. This Application sets forth the changes that the Company proposes to its EIA rate to be effective June 1, 2013. Black Hills Power requests that this rate adjustment be approved without the requirement of posting a bond or other security.

3. The EIA for Black Hills Power was approved in Docket No. EL11-001 (the “EL11-001 EIA”). The EL11-001 EIA consists of an environmental improvement adjustment for the jurisdictional allocation of eligible environmental improvement investments under SDCL §49-34A-97 for the Wyodak Power Plant (“Wyodak”). This application provides the third year revenue requirement and customer rates for the two environmental

improvement projects (“Wyodak environmental improvement project”) approved in EL11-001, along with the annual true-up as provided in the Settlement Stipulation for this Docket.

4. As provided in EL11-001, Black Hills Power owns a twenty percent (20%) interest in Wyodak located at the Gillette Energy Complex near Gillette, Wyoming. PacifiCorp owns the remaining 80% of the plant and is the operator. As a result of a Best Available Retrofit Technology (BART) analysis, in compliance with the Regional Haze rule (40 CFR51), two environmental projects were implemented at Wyodak. To achieve the BART SO₂ emission limit, it was necessary to replace the electrostatic precipitator (ESP) with a fabric filter or bag house on Wyodak. A bag house addition also allows compliance with the permitted particulate emission limit, and provides additional co-benefits associated with mercury removal and particulate matter emissions reductions. To reduce nitrogen oxide emissions and meet the BART permit requirements, low NO_x burners were installed on the unit. This in-furnace combustion modification is designed to reduce NO_x emissions produced in the boiler during the coal combustion process.
5. The third year EIA customer rate calculations are provided in Exhibit 4. As shown on Schedule 4-1.1, the calculation starts with the third year revenue requirement and allocates the revenue requirement to customer classes based on the production capacity allocators used in Black Hills Power’s last general rate case (Docket No. EL09-018). Next, the customer class revenue requirements are combined with the annual balancing account as provided in the Settlement Stipulation (paragraphs 1 and 4 of the Elements of Settlement Stipulation). The adjusted third year revenue requirements by customer class are then divided by forecasted South Dakota kWh sales for the period June 1, 2013, through May 31, 2014, to determine the EIA rate by customer class (Schedule 4-1.1, lines 43 through 46).
6. The actual second year EIA revenue requirement is provided on Schedules 4-2 through 4-5. The only difference between the forecasted second year EIA revenue requirement from Docket EL12-029 and the actual second year EIA revenue requirement reflected

herein is the SD PUC filing fee. The forecasted revenue requirement included a SD PUC filing fee based on the assessment from Docket EL11-001, or \$24,253. The actual assessment in Docket EL12-029 was \$2,136. The difference between the forecasted and actual SD PUC filing fee is reflected in the balancing account and refunded to customers.

7. In Docket EL12-061, In the Matter of the Application of Black Hills Power, Inc. for Authority to Increase its Electric Rates, the Company has requested to shift cost recovery of the Wyodak environmental improvement project from the EIA rider to base rates. If this proposal is approved by the Commission, the Company will collect the Wyodak environmental improvement project costs through interim rates for service provided on and after June 16, 2013. Therefore, the third year EIA revenue requirement only recovers the costs associated with the Wyodak environmental improvement projects for the period of April 1, 2013, through June 15, 2013.

8. The actual calculation of the third year EIA revenue requirement is provided on Schedules 4-6 through 4-9. On Schedule 4-7, rate base has been updated for accumulated depreciation and accumulated deferred federal income taxes. The third year EIA revenue requirement reflects a partial year of operating expenses and taxes, and an estimated SD PUC filing fee based on the assessment in Docket EL12-029. In accordance with Settlement Stipulation in Docket EL11-001, the rate of return reflects the actual capital structure and debt costs as of March 31, 2013.

9. The proposed EIA rate for each customer class is as follows:

	Environmental Improvement Adjustment Rate \$/kWh
Residential Service	0.0005
Small General Service	0.0005
Large General Service and Industrial	0.0003
Lighting Service	0.0002

The environmental improvement adjustment rates are set forth in the Environmental Improvement Adjustment tariff sheets contained in Exhibit No. 2 and No. 3, attached

hereto. The Company proposes to submit the revised Cost Adjustment Summary tariff sheet, Section No. 3C, Sheet No. 11, as a compliance filing after the Commission issues its decision in this docket.

10. Approximately 65,000 South Dakota retail customers are affected by the EIA rate change. The annual net decrease in the cost of service is approximately \$2,345,000 or 79.8% lower than the environmental improvement adjustment revenue billed to customers during the twelve months ending May 31, 2013. This decrease relates to the EIA rates, as shown in paragraph 7, for the twelve month period of June 1, 2013 through May 31, 2014.
11. Overall, the decrease to customers is 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.
12. Attached hereto as Exhibit No. 5 is a copy of the notice that has been provided to the public in accordance with ARSD § 20:10:13:15 and pursuant to §§ 20:10:13:17 to 20:10:13:19, inclusive.
13. In support of this Application, attached hereto and made a part hereof by this reference are Exhibit Nos. 1 through 5, showing supporting data for the proposed EIA:

<u>Exhibit No. 1</u>	Report of Tariff Change
<u>Exhibit No. 2</u>	Legislative Format of Tariffs
<u>Exhibit No. 3</u>	Clean Format of Tariffs
<u>Exhibit No. 4</u>	Environmental Improvement Adjustment Calculation
<u>Exhibit No. 5</u>	Notice to Customers

WHEREFORE, Black Hills Power respectfully requests that the Commission enter an order approving the proposed tariffs and EIA rate, and placing the rate into effect for service on and after June 1, 2013.

Dated this 30th day of April, 2013.

BLACK HILLS POWER, INC.

By: _____

Chris Kilpatrick

Director of Resource Planning and Electric Rates