

In order to efficiently serve customer needs in the region and avoid costly and inefficient infrastructure, Black Hills Power is co-owner of 230 kV and 69 kV lines. Co-owners include Basin Electric Power Cooperative, Black Hills Electric Cooperative, Butte Electric Cooperative, and Powder River Energy Corporation, Inc. Since the 1980's, the co-owners have performed joint planning studies in an effort to plan, construct, operate, and finance the necessary 230 and 69 kV infrastructure required to serve the loads within this region. This joint coordination effort results in the efficient use of capital to serve the region. By working together, Black Hills Power and others have been able to avoid the duplication of facilities.

It is through these planning studies that Black Hills Power is able to identify specific limitations associated with the existing transmission facilities that may prevent the Company from providing safe and reliable service to the Company's existing customers. It is also through this planning process that Black Hills Power reviews and analyzes specific system additions and improvements required to meet existing customer loads as well as the projected future customer loads.

In particular, Black Hills Power has identified two 69 kV rebuild projects that are needed to ensure reliable service and to achieve the load carrying capacity necessary to meet the existing and forecasted load growth in the area. More specifically, these two projects involve the rebuild of segments of the Custer to Hot Springs and Lookout to Sundance Hill 69 kV lines. Under SDCL § 49-34A-25.1, these two projects constitute modifications to qualifying facilities. As a result, Black Hills Power is entitled to recover the costs through an automatic annual adjustment under the existing tariff.

ANNUAL RATE ADJUSTMENT APPLICATION REQUIREMENTS

The Company offers the following supporting information in accordance with SDCL § 49-34A-25.3:

(1) A description of and context for the facilities included for recovery:

Custer to Hot Springs 69 kV line

This project involves rebuilding approximately 25 miles of an existing 69 kV line that was constructed in 1954. This line segment is being rebuilt due to the limited capacity rating for the existing conductor. The existing conductor size is 3/0 ACSR with a current carrying capacity of approximately 300 amps. The new line construction will include a 795 ACSR conductor with a current carrying capacity of 900 amps. This increase in line carrying capacity will meet the needs of the customers served in this area for all operating and contingency planning conditions as it supports the loads served in Custer, Edgemont, and Hot Springs.

Lookout to Sundance Hill 69 kV line

This project involves rebuilding approximately 13 miles of an existing 69 kV line that was constructed in 1956. This line segment is being rebuilt due to the limited capacity rating for the existing conductor. The existing conductor size is 336 ACSR with a current carrying capacity of 530 amps. The new line construction will include a 795 ACSR conductor with a current carrying capacity of 900 amps. This line rebuild project is required to reliably meet both the existing customer loads served in the Northern Hills area and to meet additional load growth requirements for loads served from Black Hills Power's facilities located in the Belle Fourche area during various operating and outage conditions.

(2) A schedule for implementation of applicable projects:

The Custer to Hot Springs 69 kV line rebuild project will be constructed in two phases. The first phase is expected to be in service no later than February 28, 2014. The second phase of this project is expected to be in service on June 30, 2014. The Lookout to Sundance Hill 69 kV line rebuild project is expected to be in service on September 30, 2014.

(3) The public utility's costs for these projects:

Exhibit B reflects forecasted costs for eligible projects that are expected to be placed in service from February 15, 2014, through May 31, 2015. The first phase of the Custer to Hot Springs 69 kV line rebuild project is estimated to cost approximately \$2,634,000. The second phase of this project is estimated to cost approximately \$3,132,000. The Lookout to Sundance Hill 69 kV line rebuild project is estimated to cost approximately \$3,290,000. Through a joint ownership agreement, Butte Electric Cooperative has expressed an interest in contributing \$1,000,000 to this project, thereby reducing the overall project cost to Black Hills Power customers. Project costs include an allowance for funds used during construction instead of a current return on construction work in progress.

In the general rate case that Black Hills Power plans on filing on or about March 31, 2014, the Company will request to shift cost recovery of these two projects from the TFA tariff to base rates.

For the Custer to Hot Springs line, the TFA revenue requirement only recovers the associated cost of the project from the in service date through October 1, 2014. Depending on how long it takes to process the general rate filing, the Lookout to Sundance Hill line may not qualify as a known and measurable adjustment with a September 30, 2014, in service date. As a result, Black Hills Power requests that the Lookout to Sundance Hill line be recovered through the TFA from September 30, 2014, through May 31, 2015. If the cost associated with the Lookout to Sundance Hill 69 kV project is included in base rates in the general rate case, customers will be refunded any costs collected through the TFA related to the project, plus interest, through the TFA balancing account.

(4) A description of the public utility's efforts to ensure the lowest reasonable costs to customers for the project:

Black Hills Corporation's Supply Chain department works directly with Engineering Services and other departments to ensure that Black Hills Power is contracting and acquiring services, materials and supplies in an efficient, consistent and cost effective manner. For procurement contracts greater than \$10,000, a competitive bid process is required.

When a competitive bid process is utilized, Black Hills Power prepares a Request for Proposal based on Company standards and project requirements. Vendors must meet specific requirements in order for their bid to be considered for selection. Bids are received and evaluated based on cost as well as the vendor's safety record and previous work experience.

(5) Calculations to establish that the rate adjustment is consistent with the terms of the tariff established in SDCL 49-34A-25.2:

The calculation for the TFA rate for the period of June 1, 2014, through May 31, 2015, is provided in Schedule B-1. The TFA revenue requirement, as supported on Schedule B-2, is allocated to the customer classes with the same method approved in the Transmission Cost Adjustment tariff, Section 3C, Sheet No. 16. The revenue requirement by Customer Class is then divided into the forecasted kWh sales for the 12-months ending May 2015. The rate per kWh is listed on page 4 of this Application.

Schedule B-3 calculates the total rate base amount for the TFA. The rate base calculation includes Plant in Service, less Accumulated Depreciation and Accumulated Deferred Income Taxes. The overall cost of capital used in the TFA revenue requirement calculation was determined in Black Hills Power's last general rate case, Docket EL12-061. Schedule B-4 supports the operating expenses and taxes associated with the transmission facilities. The operating expenses include depreciation expense, property taxes, and the assessed Commission filing fee.

TFA PROPOSED RATE

The Company proposes to implement the following rates per kWh to be effective June 1, 2014:

Residential	\$0.00040/kWh
Small General Service	\$0.00048/kWh
Large General Service and Industrial	\$0.00034/kWh
Lighting	\$0.00040/kWh

The TFA rates are set forth in the TFA tariff sheet contained in Exhibit No. A. 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.

Approximately 65,000 South Dakota retail customers are affected by the TFA rate change. The annual net increase in the cost of service is approximately \$586,000. The average bill impact for a typical residential electric customer using 650 kWh is approximately 0.30%.

NOTICE

The Company plans to provide notice to customers regarding the TFA rate through a bill message with the first bill for service under the proposed rate in accordance with South Dakota Administrative Rule 20:10:13:19. A customer notice will be displayed in the Black Hills Power South Dakota district offices and has been attached as Exhibit C. The Company will work with Commission Staff to determine if there are any suggestions to modify the notice to customers.

COMPANY CONTACTS

The Company will be represented in this proceeding by the following persons. Correspondence regarding this proceeding should be directed to the following:

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EXHIBITS

In support of this Application, the Company submits the following:

Exhibit A: Proposed Tariffs
 Exhibit B: Rate Calculation
 Exhibit C: Customer Notice

