

---

---

**STAFF MEMORANDUM SUPPORTING SETTLEMENT STIPULATION**

---

---

**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** KAREN CREMER, BRITTANY MEHLHAFF, PATRICK STEFFENSEN, AND ROBIN MEYERINK  
**RE:** Docket EL14-013 - In the Matter of the Application of Black Hills Power, Inc. for Approval of Transmission Facilities Adjustment  
**DATE:** May 7, 2014

---

Commission Staff (Staff) submits this memorandum in support of the Settlement Stipulation of May 7, 2014, between Staff and Black Hills Power, Inc. (BHP or Company) in the above-captioned matter.

**BACKGROUND**

On February 14, 2014, BHP filed an Application for Approval of Transmission Facilities Adjustment (TFA) with the South Dakota Public Utilities Commission (Commission). The Company proposes to recover revenue requirements associated with two 69 kV transmission rebuild projects. BHP proposes TFA rates effective June 1, 2014, through May 31, 2015.

SDCL § § 49-34A-25.1 through 25.4 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of new or modified transmission facilities with a design capacity of 34.5 kV or more and which are more than five miles in length.

In Docket EL12-061, the Commission approved the establishment of the TFA; however, no projects were included for recovery in the TFA at that time, resulting in a rate of \$0.0000 for all customer classes.

In this filing, BHP requests cost recovery of the Custer to Hot Springs 69 kV rebuild project, phases I and II, and the Lookout to Sundance Hill 69 kV rebuild project. Through joint planning studies performed in coordination with the co-owners of the 230 kV and 69 kV lines, BHP has identified these two rebuild projects as necessary to ensure continued safe and reliable service to its customers.

BHP proposes to recover a revenue requirement of \$586,133. This revenue requirement is based on the cost of the Custer to Hot Springs project from the in-service date of each phase of the project through October 1, 2014. The Company has requested to shift cost recovery of this project from the TFA to base rates in Docket EL14-026. BHP has also requested to shift cost recovery of the Lookout to Sundance Hill project to base rates in Docket EL14-026. However, as it is unknown whether this project will qualify as a known and measurable adjustment in Docket EL14-026, depending on the processing time of the rate case, BHP has requested to recover the Lookout to Sundance Hill revenue requirements from the projected in-service date of September 30, 2014, through May 31, 2015. If the cost associated with the Lookout to Sundance Hill project is included in base rates in Docket EL14-026, BHP proposes to adjust the TFA revenue requirements in the next TFA filing to reflect that the project has been included in base rates as of October 1, 2014.

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

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

### **STAFF'S ANALYSIS AND SETTLEMENT RESOLUTIONS**

Staff conducted a comprehensive review of BHP's filing, assessed the filing's compliance with the statutes authorizing the transmission facilities tariff mechanism, obtained additional information through discovery, and ultimately came to a determination based on this analysis.

Staff and BHP (jointly the Parties) positions were discussed thoroughly at settlement conferences. As a result, some party positions were modified and others were accepted where consensus was found. Ultimately, the Parties agreed on a comprehensive resolution of all issues.

A revised cost of service exhibit supporting the Settlement Stipulation is attached to this memorandum. The TFA rider is based on estimated costs of eligible transmission projects subject to later "true-up" to their actual costs and actual recoveries. Exhibit A attached to the Settlement Stipulation is designed to implement the TFA rider rates on June 1, 2014.

### **JUNE 1, 2014 – MAY 31, 2015 TFA RIDER**

The June 1, 2014 – May 31, 2015 TFA rates are based on the estimated revenue requirements associated with the Custer to Hot Springs 69 kV rebuild project and the Lookout to Sundance Hill 69 kV rebuild project. Both projects consist of rebuilding existing 69 kV lines due to the limited capacity rating for the existing conductors. The Custer to Hot Springs rebuild is approximately 25 miles and the Lookout to Sundance Hill rebuild is approximately 13 miles.

SDCL § 49-34A-25.1 allows utilities to include costs associated with transmission facilities in the TFA rider with a design capacity of 34.5 kV or more and which are more than five miles in length. While the lines meet the "34.5 kV or more" requirement, Staff had concerns with whether the lines qualify as transmission facilities as opposed to serving distribution functions. Following BHP's explanation regarding the function of its 69 kV sub-transmission system<sup>1</sup>, Staff agrees the lines are eligible for inclusion in the TFA rider under SDCL § 49-34A-25.1.

The TFA legislation also requires consideration of whether the projects have and are expected to achieve transmission system improvements at the lowest reasonable cost to ratepayers. As noted in the Company's application, a competitive bid process is required for procurement contracts greater than \$10,000. In response to discovery, BHP provided additional information about the contractor selected for the Custer to Hot Springs 69 kV project. Staff believes the Company's bidding process for this project will result in just and reasonable rates for ratepayers. The Sundance Hill to Lookout 69 kV project is still in the beginning stages of the project and the RFP for construction of the project has not been sent to firms at this time.

<sup>1</sup> Please see BHP's response to Staff's Data Request 2-1 attached to this memorandum.

In addition, through a joint ownership agreement, Butte Electric Cooperative has expressed an interest in contributing \$1,000,000 to the Lookout to Sundance Hill 69 kV line rebuild project, thus reducing the amount of capital costs to be paid by BHP's customers.

Staff will review the actual project costs for both projects in Docket EL14-026 and/or the 2015 TFA filing to ensure the Company did achieve the lowest reasonable cost to ratepayers.

Unless otherwise noted, all of the changes discussed below are changes from the Company's originally filed position.

**Plant in Service** – The Company provided estimated capital costs based on budgets. During discovery, BHP provided updated estimates based on project work orders. The Settlement Stipulation reflects the updated estimates. This change reduces the projected revenue requirement by \$5,136.

**Allocation Based on In-Service Date** – BHP's application proposed to recover the associated cost of the Custer to Hot Springs Phase I project from a projected in-service date of February 28, 2014, through October 1, 2014, the associated cost of the Custer to Hot Springs Phase II project from a projected in-service date of June 30, 2014, through October 1, 2014, and the associated cost of the Lookout to Sundance Hill project from a projected in-service date of September 30, 2014, through May 31, 2015.

The Settlement Stipulation reflects updated in-service dates of March 17, 2014, for the Custer to Hot Springs Phase I project, July 1, 2014, for the Custer to Hot Springs Phase II project, and December 1, 2014, for the Lookout to Sundance Hill project. The Settlement Stipulation also revises the allocation based on an in-service date for the Custer to Hot Springs Phase I and II projects to be from the in-service date through September 30, 2014, instead of October 1, 2014, since as of October 1, 2014, the projects are proposed to be recovered in base rates. This avoids double recovery of one day of costs. These changes reduce the projected revenue requirement by \$77,696.

**Other Operating Revenues** – BHP has a joint ownership agreement with Rushmore Electric and its two members, Black Hills Electric Cooperative and Butte Electric Cooperative, for the co-owned portions of the 69 kV sub-transmission system. According to this agreement, each party has the right to own its load ratio share of jointly owned facilities. Since the Cooperatives are underinvested in the system, Rushmore Electric Power Cooperative, on behalf of itself and its members, pays BHP a monthly fee to ensure that customers of all parties are fairly and accurately responsible for their use of the jointly owned facilities.

While Butte Electric Cooperative has elected to contribute \$1,000,000 in the Lookout to Sundance Hill rebuild project, the Cooperatives are not making a capital contribution to the Custer to Hot Springs rebuild project and will still be underinvested in the system as a whole. The Parties agree it is necessary to reflect the estimated additional revenues BHP will receive from the Cooperatives' monthly facilities charge due to the Custer to Hot Springs rebuild project<sup>2</sup>. This change reduces the projected revenue requirement by \$39,820. The actual additional revenue received will be reflected in the 2015 TFA true-up filing.

---

<sup>2</sup> According to SDCL § 49-34A-25.2, the costs recovered under the TFA must be net of revenues.

The net effect of these changes is an estimated revenue requirement of \$463,481. The revised TFA rates per kWh for the respective customer classes to be effective June 1, 2014 are:

Residential	\$0.00031
Small General Service	\$0.00038
Large General Service and Industrial	\$0.00027
Lighting Service	\$0.00032

#### **OTHER ISSUES**

**Annual Report of South Dakota Jurisdictional Earnings** – The Company has agreed to file, by April 15<sup>th</sup> of each year, an annual report with the Commission detailing its South Dakota jurisdictional financial earnings for the preceding calendar year. Staff believes the report is necessary to monitor the Company’s earnings and the potential effect of adding the TFA to its South Dakota tariff. This requirement will exist only as long as the Company is receiving revenue from the TFA. The Company is not required to submit the report if BHP has (a) filed a general rate case within 12 months of the report due date or (b) adjusted rates as a result of a general rate case within 12 months of the report due date.

**Environmental Improvement Adjustment (EIA) Balancing Account** – In Docket EL14-037, the Company proposed to credit/charge the remaining EIA balancing account amounts through the TFA. The Parties agree that the Company will submit a compliance filing for a revised TFA rate calculation and tariff if the Commission approves the proposed credit/charge method in Docket EL14-037. This compliance filing would be subject to Staff’s review.

#### **RECOMMENDATION**

Staff recommends the Commission approve the Settlement Stipulation for the reasons stated above.