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*South Dakota*

**PUBLIC UTILITIES COMMISSION**

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January 27, 2015

Mike and Debra Parmley  
[REDACTED]

Dear Mr. and Mrs. Parmley:

This is in response to your letter in today's mail regarding the Black Hills Power rate case increase request application currently being reviewed by the commission.

It is important to remember that the BHP rates which went into effect on October 1, 2014 are interim rates. By law, public utilities are allowed to implement their proposed increased rates once the required 180-day suspension ends. If the commission ultimately approves rates lower than the interim rates, BHP will refund its customers the difference in rates plus interest for the interim period.

You relayed your last few months' BHP's bill totals. Since energy usage typically changes month-to-month, we cannot accurately compare one month's bill against the next and arrive at an increase amount or percentage without factoring in the energy usage component.

You pointed out the Cost Adjustment Charge. The Cost Adjustment Summary charges consist of: 1) Environmental Improvement Adjustment (EIA), 2) Energy Efficiency Solutions Adjustment (EESA), 3) Transmission Cost Adjustment (TCA), 4) Fuel and Purchased Power Adjustment (FPPA), and 5) Transmission Facility Adjustment (TFA). All these charges are per kWh charges and require commission approval. An explanation of these charges with current rates can be found under Section 3C, pages 12 through 22 of BHP's tariff at the following link: <http://puc.sd.gov/Tariffs/electrictariff.aspx>

You mentioned the purchase of a new furnace last spring which is more energy efficient than the original furnace and that should reduce your winter heating energy needs. If you are interested in learning about other possible energy-saving tools, I encourage you to contact BHP's Melanie Toney at (605) 721-1709. You may be a candidate for the utility's onsite assessment and whole home energy audit, seeking the most cost effective energy savings for your home.

When a utility files a rate case with the commission, the commission is obligated by law to thoroughly process the case. We cannot simply say no and reject it since we are required to investigate it and make a just and reasonable decision. This process can take almost a year to complete. Each commissioner, the commission's staff and expert consultants hired by staff will review the entire case – referred to as a docket – separately, along with any intervenors in the case. We request and review additional data and information from the utility before a decision is rendered.

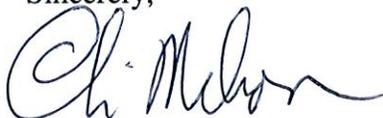
You mention your frustration with the financial gain by the owners of BHP. BHP is one entity owned by Black Hills Corporation's shareholders, along with several other entities. Since BHP is a public utility, federal and state laws govern how it must operate and how the commission must regulate it. However, the commission does not regulate BHC. The laws include what is commonly known as "ring-fencing" and this prevents an investor-owned utility of being stripped of its profits by shareholders. The purpose is to retain sufficient funds to operate the utility and reinvest in the system in order to provide safe, reliable service to the utility's customers.

The cost of electricity is on the rise not only for you and me, but for other investor-owned, rural cooperative and municipal electric systems' customers throughout South Dakota and the U.S. as we are learning in news reports daily. South Dakota has six investor-owned electric utilities, and of these, four currently have open rate case request dockets before the commission. The most-cited reason for these increased rates is new federal mandates, particularly those from the Environmental Protection Agency. American Electric Power reports that 65,000 MW of electric capacity are being retired largely because of EPA regulations. That is nearly 30 times the amount of electricity the state of South Dakota uses at peak demand. EPA mandates were one of the four reasons cited by BHP in filing this rate increase request. You can read BHP official Vance Crocker's testimony about this in the docket, EL14-026, at <http://www.puc.sd.gov/commission/dockets/electric/2014/EL14-026/crocker.pdf>

I appreciate your distaste for increased energy costs. None of us wishes to see our rates increase including my fellow commissioners and me. However, the law requires the commission to allow utility rates that are proven reasonable and justifiable.

Thank you for contacting the commission with your concerns. All discussion involving commissioners on the case must be available to the public. Therefore, your comments and my response will be filed in the docket.

Sincerely,

A handwritten signature in cursive script, appearing to read "Chris Nelson".

Chris Nelson