
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: BRITTANY MEHLHAFF AND KAREN CREMER
RE: Docket EL14-034 - In the Matter of the Application of Black Hills Power, Inc. for an Order Authorizing it to Issue up to \$110 Million in Additional First Mortgage Bonds
DATE: May 7, 2014

Commission Staff (Staff) submits this memorandum regarding its recommendations for Docket EL14-034.

BACKGROUND

On April 23, 2014, Black Hills Power, Inc. (BHP) filed with the Commission an application for an order authorizing it to issue up to \$110 Million in additional first mortgage bonds.

Pursuant to SDCL § 49-34A-29, a public utility receiving more than 25% of its gross revenue in this state and which nonresident public utility is not subject to the jurisdiction of Federal Energy Regulatory Commission (FERC) in the issuance of its securities must receive an order from the Commission authorizing the issuance of any security, or assumption of any obligation or liability as a guarantor, endorser, surety, or otherwise, in respect of any security of another person. Since BHP receives more than 25% of its gross revenue in South Dakota and is not subject to the jurisdiction of FERC in the issuance of its securities, it must receive such approval from the Commission.

BHP and its sister utility, Cheyenne Light, Fuel and Power Company, are constructing the Cheyenne Prairie Generating Station (CPGS) in Cheyenne, Wyoming. BHP intends to issue debt under its existing indenture in an amount up to \$110 million to fund CPGS and other capital expenditures and to call the Series 2004 Campbell Country Bonds prior to maturity if they can be refinanced at a lower rate of interest.

STAFF'S ANALYSIS

Staff reviewed the Company's filing to ensure it met the requirements of applicable statutes and to evaluate the impact the debt issuance could have on BHP's customers.

Pursuant to SDCL § 49-34A-32, the Commission shall make an order under § 49-34A-29 only if it finds that an issue or assumption is for some lawful object, within the corporate purposes of the applicant and compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by the applicant of service as a public utility and which will not impair its ability to perform that service, and is reasonably necessary or appropriate for such purposes. The Company states the proposed issuance meets these requirements and provided Staff with further support in its response to Staff's Data Request 1-14.

Staff issued discovery questions to BHP aiming to address the impact the issuance will have on the Company's capital structure, debt costs, and credit ratings. BHP adequately responded to Staff's questions and these responses are attached to this memorandum.

The actual impact this issuance will have on customer rates will be determined as part of the rate case process in Docket EL14-026. Staff's rate of return witness will analyze the Company's capital structure and debt costs to ensure the rate of return allowed in Docket EL14-026 is in the public interest.

RECOMMENDATION

Staff recommends the Commission authorize BHP to issue up to \$110 million in additional first mortgage bonds, with the conditions that Commission authorization does not constitute the Commission's determination of any utility ratemaking issues and that the issuance of securities does not mean that the Commission is in any way prohibited at some future date from finding BHP's capital structure in need of adjustment.