

From: PUC
Sent: Friday, July 24, 2015 3:56 PM
To: [REDACTED]
Subject: EL14-106

Mr. Heubaum:

This is in response to your letter regarding NorthWestern Energy's rate increase request application currently under review by the commission. You raise concerns about increased electric 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.

Although NW requested an increase of 20.24 percent, the commission has not yet fully processed the case or determined that the utility is justified in being allowed a rate increase, or if so, what percentage is justified according to the analysis currently being performed. The utility may put interim rates into effect after six months of filing. However, those rates are subject to refund with interest to consumers if the commission determines a rate less than the utility's proposed rate.

NW filed their rate increase request application with the commission on Dec. 19, 2014, and here are excerpts from NW's application:

NorthWestern last filed a general electric rate case in 1980, approximately 34 years ago. NorthWestern's addition of the Aberdeen peaker plant to its generation fleet, upgrades to the environmental controls at NorthWestern's thermal generation facilities, the Yankton transmission project, and NorthWestern's move to integrate with the Southwest Power Pool ("SPP") are the primary drivers for the need to increase electric rates in South Dakota.

The additional revenue requested in the Application is needed to offset the increased costs incurred by NorthWestern in providing service to its customers, including the costs caused by federally required upgrades for environmental emissions controls at Big Stone, Coyote, and Neal #4; the addition of new peaking generation in Aberdeen; transmission and distribution upgrades; and NorthWestern's participation in SPP.

Items such as plant construction and maintenance are included in base rates, and NW can only change these rates through a rate case request application. Because NW is a public utility and must operate within the laws that specifically govern public utilities, it cannot save in advance via customers' rates for plant construction or replacement or upgrade costs to comply with federal mandates. It must capture revenue for those expenses via customer rates. Rate increases to allow for such expenses must be approved by the Public Utilities Commission.

When a utility files a rate case, the commission is obligated by law to thoroughly process the case. This usually takes most of a year to complete, and the law requires the commission complete its analysis and render a decision on a rate case within a one-year time frame. Each commissioner, the commission's staff and expert consultants hired by staff review the entire case – referred to as a docket – separately, along with any intervenors in the case. Each party to the case requests and reviews additional data and information from the utility before a decision is ultimately rendered. The utility's expenditures are carefully reviewed regarding need and prudence during this analysis.

The cost of electricity is rising for investor-owned, rural cooperative and municipal electric systems' customers throughout South Dakota and the U.S. Our state has six investor-owned electric utilities, and of these, five have filed rate case request dockets before the commission within the past 16 months. The most-cited reason for these increased rates is new federal mandates, particularly those from the Environmental Protection Agency. You can read NW's official testimony about their rate request application's cost-causers in the docket, EL14-106: <http://www.puc.sd.gov/Dockets/Electric/2014/el14-106.aspx>

This Electric Rate Case Requests Guide helps explain the commission's process in handling rate increase request cases such as this: <http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

You also mention your frustration with NW's billing practice in which they require payment not less than ten days after the billing date. I understand your concern since you state that it took three days of this timeframe for the bill to reach you. I am forwarding your letter to a member of the PUC's Consumer Affairs staff, asking them to follow up with NW and you regarding this.

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

Chairman Chris Nelson
South Dakota Public Utilities Commission
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