STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: BRITTANY MEHLHAFF AND KAREN CREMER

RE: Docket EL14-037 - In the Matter of the Application of Black Hills Power, Inc. for Approval of its 2014 Environmental Improvement Adjustment

DATE: May 7, 2014

Commission Staff (Staff) submits this Memorandum regarding its recommendations for the above captioned matter.

BACKGROUND

On April 30, 2014, the Commission received a petition from Black Hills Power, Inc. (BHP or Company) for approval of its 2014 Environmental Improvement Adjustment (EIA). The Company requests the annual rate adjustment allowed under SDCL 49-34A-99 for the costs of the Wyodak Power Plant (Wyodak) environmental improvements approved in Docket EL11-001.

The EIA rider was implemented on June 1, 2011, as a result of Docket EL11-001. In Docket EL12-029, the Commission approved the Company's projected second year EIA revenue requirements associated with the previously approved Wyodak environmental improvements, including the true-up of the first year actual costs and revenues. In Docket EL13-009, the Commission approved the Company's projected third year EIA revenue requirements associated with the Wyodak environmental improvements, including the true-up of the second year actual costs and revenues. The revenue requirement in Docket EL13-009 was based on only two and a half months of cost recovery since the Company shifted cost recovery of the Wyodak environmental improvements from the EIA rider to base rates in Docket EL12-061.

As the costs of the Wyodak environmental improvements are currently being recovered in base rates, the Company's current filing only seeks approval of the true-up of the third year revenue requirements and to implement an EIA rate of $0.0000 for all customer classes. The changes to rates (per kWh) to the respective customer classes to be effective June 1, 2014 are shown below.

	Current Rates	Proposed Rates
Residential	$ 0.0005	$ 0.0000
Small General Service	$ 0.0005	$ 0.0000
Large General Service and Industrial	$ 0.0003	$ 0.0000
Lighting	$ 0.0002	$ 0.0000

Since the true-up of the third year revenue requirements results in an over/under recovery balance, the Company proposes to credit/charge the remaining amounts through the Transmission Facilities Adjustment (TFA). The estimated amounts to be credited or charged to each customer class through the TFA are:

		(Over)/Under Recovery Amount
Residential	$	(45,548)
Small General Service	$	17,728
Large General Service and Industrial	$	11,759
Lighting	$	3,165
Net Amount	$	(12,895)

YEAR 3 REVENUE REQUIREMENT

The rates approved in Docket EL13-009 were based on the balance in tracker account and the estimated 2013 –2014 (third year) Wyodak environmental revenue requirement. The estimated third year revenue requirement from Docket EL13-009 was $593,921, based on the costs for the period of April 1, 2013, through June 15, 2014, since BHP shifted cost recovery of the Wyodak environmental improvements from the EIA rider to base rates in Docket EL12-061. Interim rates in Docket EL12-061 were effective on and after June 16, 2013.

BHP's filing in this docket reflects an actual third year revenue requirement of $592,775. In Docket EL13-009, BHP included the filing fee assessed in Docket EL12-029, $2,136, as an estimate for the filing fee in the third revenue requirement. The reflection of the actual assessed filing fee from Docket EL13-009, $990, resulted in the reduced third year revenue requirement.

In Docket EL13-009, the Company agreed to apply a **Begin Confidential** [redacted] **End Confidential** ROE for purposes of determining the rates to be effective June 1, 2013, with the condition that this ROE be revised in 2014 during the true-up of year three to reflect the ROE determined as a result of either settlement or Commission decision in Docket EL12-061. The Commission's order in Docket EL13-009 reflects this condition.

The ROE agreed to in Staff and BHP's settlement in Docket EL12-061 was **Begin Confidential** [redacted] **End Confidential**. The Company's application in this current EIA filing did not reflect the **Begin Confidential** [redacted] **End Confidential** ROE, maintaining the **Begin Confidential** [redacted] **End Confidential** ROE. The revised cost of service exhibit attached to this memo reflects the **Begin Confidential** [redacted] **End Confidential** ROE, resulting in a revised third year revenue requirement of $585,531.

BALANCING ACCOUNT TRUE-UP

The Company calculated the true-up of the amounts collected during the third year for each customer class, comparing actual costs to actual recoveries. BHP's calculations resulted in a forecasted net over-collection of costs to be returned to customers of $12,895.

Staff identified three corrections that should be made to the balancing account calculations. First, the year 3 actual revenue requirement change noted above impacts the balancing account calculations.

Second, the Company's calculations did not carry forward the February 2013 balance from the EL13-009 balancing account to the calculations of the March 2013 balancing account and monthly interest. The prior month's balance needs to be carried forward to accurately continue the calculation of under/over recoveries.

Third, a correction needed to be made to the calculation of actual costs for the Industrial class found on Schedule 4-1.2, line 27, columns Mar-13 through Jun-13. **Begin Confidential** [redacted] **End Confidential**. The revised cost of service exhibit attached to this memo reflects the appropriate calculation.

The net effect of these changes is a forecasted net over-collection of $72,307 that needs to be returned to customers. The estimated amounts to be credited or charged to each customer class are:

		(Over)/Under Recovery Amount
Residential	$	(44,228)
Small General Service	$	(39,233)
Large General Service and Industrial	$	9,348
Lighting	$	1,805
Net Amount	$	(72,307)

REMAINING BALANCE MECHANISM

Since the Wyodak environmental improvements are no longer being recovered through the EIA, the balancing account is all that remains in the EIA. The remaining balance for each customer class must be credited or charged to customers in some way to completely bring the EIA balance to $0.00.

BHP requests permission to credit/charge the remaining amounts through the TFA requested in Docket EL14-013. BHP asserts this mechanism is appropriate because the customer class allocation percentages for the TFA are not materially different from the allocation percentages for the EIA and because it provides the most efficient and timely way to provide refunds to customers with the least amount of administrative burden. According to the Settlement Stipulation in Docket EL14-013, BHP will submit a compliance filing for a revised TFA rate calculation and tariff if the Commission approves the proposed credit/charge method in this docket.

Staff recognizes the need to do something with the remaining balance. Staff believes it is inefficient for the Company, Staff, the Commission, and BHP's customers, to have annual filings to true-up the balancing account when no assets are being recovered through the rider. Since rates are based on forecasted sales, there will always be a remaining balance.

From an analytical viewpoint, Staff believes the method proposed by the Company is an efficient mechanism to credit/charge customers the remaining balance and agrees with the statements made by BHP in its application. However, the statutes regarding riders do not address how the remaining balance should be charged or credited to customers.