

**BEFORE THE SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION**

BLACK HILLS POWER, INC.’S)
APPLICATION FOR APPROVAL OF ITS)
2013-2014 VEGETATION MANAGEMENT) **Docket No.** _____
ACTIVITIES AND 2015 BUDGET)

2014 VEGETATION MANAGEMENT REPORT

Black Hills Power, Inc. (“Black Hills Power” or the “Company”), a South Dakota corporation, respectfully requests an order from the South Dakota Public Utilities Commission (“Commission”) approving the vegetation management activities from April 2013 through November 2014, the 2015 vegetation management budget, and the Vegetation Management Regulatory Asset (“VMRA”) balance as of November 30, 2014.

The Commission approved the establishment of the VMRA for Black Hills Power in Docket EL12-061. Per the associated stipulation (“Stipulation”), Black Hills Power is required to provide an annual report to demonstrate the actual vegetation management costs incurred. The report will outline the progress made on the overall five year plan and update the forecast for the remaining years based on actual progress to date.

BACKGROUND

Black Hills Power utilizes an integrated vegetation management approach to provide and manage a suitable Right-Of-Way (“ROW”) clearance to control vegetation growth that could interfere with the safe and reliable delivery of electricity. Black Hills Power seeks to maintain a ten year vegetation maintenance cycle for the Company’s 230 kV transmission and 69 kV sub-transmission power lines. A four to five year trim cycle is sought for primary circuits with voltages less than 69 kV.

Black Hills Power is required to meet specific reliability compliance standards of the North American Electric Reliability Corporation (“NERC”) as it relates to vegetation management associated with the Company’s 230 kV transmission facilities. In addition, Black Hills Power’s defined Distribution/Transmission Vegetation Management Program also follows arboricultural and industry best practice minimum clearances for power lines.

There are various types of vegetation located within Black Hills Power's service territory. The Black Hills forest in South Dakota is dominated by ponderosa pine and Black Hills spruce with areas of open prairie. In low lying areas, there are patches of cottonwood as well as oak. Urban environments have greater populations of elm, maple, and other ornamental species such as crab apple. In higher elevations there are pockets of aspen and birch.

In Docket EL12-061, Black Hills Power demonstrated that increases in vegetation management costs are necessary to maintain a normal vegetation trimming cycle. The two primary cost drivers are an increase in annual precipitation throughout the Black Hills Power service territory and exposure to the Mt. Pine Beetle infestation. From 2008 through 2011, there was a 15% increase in average annual precipitation compared to the 1971 to 2000 time period. The increase in average rainfall during this recent four year period has increased the vegetation growth activity experienced within the Company's service territory. In addition, Black Hills Power has calculated that it has 1,451 miles of 230kV, 69kV, and distribution line miles of exposure to areas within the Black Hills National Forest that could be impacted by the Mt. Pine Beetle. The Mt. Pine Beetle infestation also presents an increased exposure to vegetation impacts from outside the Company's ROW.

There are a number of benefits associated with maintaining a normal vegetation trimming cycle. These include increased system reliability with fewer outages caused by vegetation and various weather conditions, increased efficiencies with normal routine maintenance causing less inefficient hot spotting clearing, easier to patrol right-of-ways, and fewer outages during major weather events. All of these activities help Black Hills Power to improve our ability to provide safe, reliable, and economical service to our customers.

The Commission approved the creation of the VMRA effective April 1, 2013. Black Hills Power is allowed to treat a portion of its South Dakota expenditures for vegetation management as a regulatory asset, as follows:

1. Prudent expenditures for vegetation management totaling \$1,741,509 or less per year will continue to be expensed by BHP.
2. Expenditures for vegetation management in each of the next five years that exceed \$1,741,509 annually are considered a VMRA. If an annual expenditure for VMRA is less than \$1,741,509, the VMRA shall be reduced by the difference between \$1,741,509, and said annual expenditure.
3. Black Hills Power shall receive a rate of return on the balance in the VMRA, calculated on a monthly basis. The rate of return shall be equal to the rate of return approved by the Commission in rate case Docket EL12-061.
4. At the end of the five-year period, the principal balance in the VMRA account shall be amortized over a five-year period.

5. The recovery in years six through ten of the balance of the VMRA account commence in year six in the form of a tariff or rate increase to be approved by the Commission prior to year six.

This report outlines the vegetation management activities in 2013 and 2014, the planned activities for 2015, and provides an update to the five year vegetation management plan.

2013 - 2018 VEGETATION MANAGEMENT PLAN

Black Hills Power’s goal is to trim the entire distribution system during the five year plan period. Exhibit A contains the list of distribution circuits, with line miles, within Black Hills Power’s service territory that were trimmed between January 2013 through November 2014, and are expected to be trimmed during the remaining plan period. Vegetation maintenance is tracked by individual circuit by year and for completion. The Company proposes to use Exhibit A in future vegetation management reports to compare actual results with the budget.

2013 – 2014 Vegetation Management Activities

In 2013 and 2014, the Company made significant progress moving towards a five year trim cycle for distribution lines with voltages less than 69 kV. Over the approximate last two years, the Company trimmed approximately 740 miles of overhead distribution line. The following South Dakota communities have seen maintenance trimming since 2013: Rapid City, Sturgis, Deadwood, Lead, Belle Fourche, Silver City, Custer, Hot Springs, Edgemont, Pringle, and Piedmont.

Below is a table that compares our total company actual results with our budget for 2013 and 2014 through November:

	2013 Budget	2013 Actual	% of Budget	2014 Budget	2014 Actuals Through November	% of Budget
Vegetation Management Expenditures	\$2,743,893	\$3,040,928	111%	\$3,294,507	\$2,864,648	87%
Line Miles Trimmed	375.53	353.34	94%	449.05	388.41	86%

There were two major challenges to trimming the distribution circuits budgeted in 2013 and 2014. First, normal maintenance trimming was delayed in October 2013 to assist with the restoration efforts after Winter Storm Atlas. Second, the South Dakota system wide ground patrol pulled resources away from normal vegetation maintenance in the summer of 2014. Although significant efforts to repair facilities and address vegetation were undertaken in conjunction with the restoration efforts that followed Winter Storm Atlas, Black Hills Power continued to discover damaged vegetation and facilities. In order to identify latent defects and to ensure a safe, reliable system, the Company determined that it was prudent to perform a

comprehensive ground patrol. Winter Storm Atlas was an extraordinary event, and the Company does not anticipate similar events impacting the Company's ability to achieve its vegetation management plan from 2015 through 2018.

The vegetation activities associated with Winter Storm Atlas and the Mountain Pine Beetle infestation are summarized below.

i. Winter Storm Atlas

From Thursday, October 3rd through Saturday, October 5th 2013, western South Dakota experienced a severe winter storm commonly referred to as Winter Storm Atlas. Heavy snow and high winds caused significant damage to trees and power lines in the affected areas and caused treacherous travel and working conditions. Because the storm occurred in early October all deciduous trees were fully leafed. The combination of the leafed trees, heavy snow and high winds resulted in extensive broken trees that contributed greatly to the damage to Black Hills Power's facilities throughout its service territory in South Dakota. Black Hills Power considers the outages caused by Winter Storm Atlas to be the worst in the Company's 130 year history.

Winter Storm Atlas impacted vegetation in the area, but it did not lower short or long term costs for vegetation management. The storm caused many branches to break and fall, and these have been properly addressed. This maintenance addressed short term reliability issues but did not reduce the need for our long term vegetation management plan, including trimming new growth on trees or the damage caused by the Mountain Pine Beetle infestation.

ii. Mountain Pine Beetle

The Mountain Pine Beetle infestation continues to spread across the Black Hills National Forest. While reports from the US Forest Service suggest the rate of infestation in areas is slowing, there is no evidence showing the Mt. Pine Beetle infestation is declining. In addition, the migration of Mountain Pine Beetles is unpredictable. Several incidences have occurred in which circuits trimmed in 2013 have new pockets of Mountain Pine Beetles along the ROW.

Black Hills Power has dedicated crews working year round patrolling areas along the ROW in areas with the highest concentration of Mountain Pine Beetles to identify and remediate possible hazard trees to electrical lines. The number of Mountain Pine Beetle trees removed and associated cost has significantly increased from previous years. Exhibit B shows the number of Mountain Pine Beetle trees removed from

2010 through November 2014, along with the associated costs for 2013 and 2014. For 2014 through November, there were a total of 8,152 Mountain Pine Beetle trees removed at a cost of approximately \$430,000.

2015-2018 Planned Vegetation Management Activities

The following table provides the total Company estimated expenditures and line trimming budget for 2015 – 2018 to achieve a five year trim cycle.

	2015 Budget	2016 Budget	2017 Budget	2018 Budget
Vegetation Management Expenditures	\$3,343,341	\$3,320,142	\$3,599,996	\$2,965,797
Line Miles Trimmed	455.89	285.64	352.86	308.47

The distribution circuits budgeted by year are shown on Exhibit A. The following South Dakota communities expect to see maintenance trimming in 2015: Rapid City, Nemo, Hills City, Lead, Deadwood, Belle Fourche, Custer, and Spearfish. Black Hills Power will continue patrolling remote lines in the Black Hills National Forest to identify and remove trees infested with Mountain Pine Beetles.

Black Hills Power’s vegetation management plan is designed to provide safe and reliable power delivery to our customers. The maintenance of power line ROWs for both transmission and distribution lines are essential to assuring system reliability. Trees are a major cause of power outages, and Black Hills Power’s customers expect reliable service during normal conditions and severe storms. Regular trimming and tree growth clearing along electric lines can reduce the duration and number of outages. Exhibit C highlights the significant progress the Company has made over the last five years in reducing tree caused outages.

In addition to system reliability, vegetation management enhances safety, protects infrastructure, and reduces restoration times. Safety is a core value of Black Hills Corporation. People who work or play in and around trees close to power lines can suffer severe injury or death from electric contact. Broken poles and conductors caused by vegetation require more resources and increases restoration time. Furthermore, a maintained ROW allows for easier access when an outage does occur, resulting in reduced cost and outage duration.

The Company will update the forecast for 2016 through 2018 based on the progress made on the five year plan. Different amounts may be spent each year on vegetation management based upon weather conditions and other factors outside the Company’s control.

Vegetation Management Regulatory Asset Calculation

Exhibit D contains the detailed calculation of the VMRA as of November 30, 2014.

The Company incurred \$3,419,389 of expenditures for vegetation management from April 1, 2013, through March 31, 2014, at the total Company level. The South Dakota allocated

cost was \$3,237,304, using the allocations approved in Docket EL12-061. Black Hills Power expensed \$1,741,509 in accordance with the Stipulation, and classified the expense that exceeded this level, or \$1,495,795, as a VMRA during this time period. The rate of return approved in Docket EL12-061 was applied to the VMRA balance, and the balance of the VMRA as of March 31, 2014, was \$1,531,961.

From April 1, 2014, through November 30, 2014, the Company incurred \$2,059,184 of expenditures for vegetation management at the total Company level. The South Dakota allocated cost was \$1,950,544, using the allocations approved in Docket EL12-061 from April 2014 through September 2014, and the allocations proposed in the rate case pending before the Commission, Docket EL14-026, for October 2014 through November 2014. Black Hills Power reclassified the expenditures that exceeded \$1,741,509 during this time period, or \$209,035, to the VMRA. Including the rate of return, the balance of the VMRA as of November 30, 2014, was 1,846,112.

COMPANY CONTACTS

The Company will be represented in this proceeding by the following persons. Correspondence regarding this proceeding should be directed to the following:

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EXHIBITS

In support of this Application, the Company submits the following:

- Exhibit A: Vegetation Management Plan by District
- Exhibit B: Mountain Pine Beetle Trees Removed by Year

Exhibit C: Tree Caused Outage Trend

Exhibit D: Vegetation Management Regulatory Asset Calculation

CONCLUSION

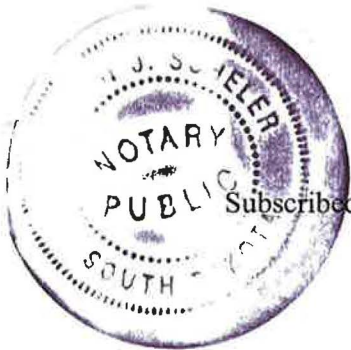
Based on this Application, Black Hills Power respectfully requests that the Commission issue an order approving:

- (1) The vegetation management costs incurred from April 2013 through November 2014;
- (2) The proposed 2015 vegetation management budget; and
- (3) The VMRA balance as of November 30, 2014.

BEFORE THE PUBLIC UTILITY COMMISSION OF SOUTH DAKOTA

STATE OF SOUTH DAKOTA)
)
 SS:
)
 COUNTY OF PENNINGTON)

I, Jon Thurber, being duly sworn, do hereby depose and say that I am Manager, Regulatory Affairs for Black Hills Corporation, that I have read such Application, and that the facts set forth therein are true and correct to the best of my knowledge, information and belief.



Jon Thurber

Jon Thurber – Manager, Regulatory Affairs

Subscribed and sworn to before me this 20th day of December, 2014.

Carey J. Scheeler

Notary Public

My Commission Expires: 1-10-2015