

**BEFORE THE SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION**

**APPLICATION OF BLACK HILLS POWER,)
INC. FOR APPROVAL OF ITS 2015)
ENVIRONMENTAL IMPROVEMENT) Docket No. _____
ADJUSTMENT)
)**

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 an Environmental Improvement Adjustment ("EIA") proposed herein, to become effective on June 1, 2015.

South Dakota Codified Law §§ 49-34A-97 through 100, authorize the Commission to approve a tariff mechanism for automatic annual adjustment of charges for jurisdictional costs of environmental improvements to its existing electric generation facilities, as such facilities are defined under South Dakota Law. SDCL § 49-34A-97, defines qualifying environmental improvements as any requirements under the Clean Air Act, the Clean Water Act, or any other federal law or rule, or any state law or rule implementing a federal law or rule, or voluntary environmental measures designed to protect the environment. The Commission approved the establishment of the EIA tariff for Black Hills Power in Docket EL11-001. Per the approved tariff, Black Hills Power is required to make an annual rate filing by February 15th each year for forecasted environmental improvements. Black Hills Power respectfully requests Commission approval of the jurisdictional costs associated with the identified eligible environmental improvements set forth in detail in this Application.

ANNUAL RATE ADJUSTMENT APPLICATION REQUIREMENTS

The Company offers the following supporting information in accordance with SDCL § 49-34A-99:

- (1) A description of and context for the costs and expenses of environmental improvements included for recovery:**

Wyodak Mercury Control Project

Black Hills Power owns a twenty percent interest in the Wyodak power plant ("Wyodak") located at the Gillette Energy Complex near Gillette, Wyoming. PacifiCorp owns eighty percent of Wyodak. Wyodak commenced service in 1978, and is comprised of one coal-fired boiler with a net generating capacity of 335 megawatts.

On December 16, 2011, the Environmental Protection Agency ("EPA") finalized the National Emission Standards for Hazardous Air Pollutants ("NESHAP") from coal and

oil-fired Electric Utility Steam Generating Units, or EGU maximum achievable control technology ("MACT") rule. This rule was developed under the Clean Air Act and establishes emission standards for mercury, acid gases, and particulate matter. Under this rule, mercury emissions would be limited for units burning sub-bituminous coal to less than or equal to 1.0 pounds per trillion BTUs.

The mercury control project at Wyodak is required to comply with the mercury removal component of the EPA's utility MACT rule. The project uses a sorbent injection system, and the sorbent currently being used is an activated carbon. The sorbent injection system is designed to inject the sorbent into the flue gas where the mercury is absorbed, removed, and captured from the flue gas prior to release into the atmosphere. The required injection rates needed to achieve the desired mercury removal rates is verified through testing on the stacks at Wyodak. The installation of mercury controls at Wyodak assist in the Company's effort to keep this base load generating resource running in compliance with environmental requirements.

Wygen III CO and O₂ Grid Installation

Black Hills Power owns a fifty two percent interest in the Wygen III power plant ("Wygen III") located at the Gillette Energy Complex near Gillette, Wyoming. Montana Dakota Utilities owns twenty five percent and the City of Gillette owns twenty three percent of Wygen III. Wygen III commenced service in 2010, and is an air cooled, coal fired power plant with a 100 megawatt net generating capacity.

The EPA's utility MACT rule, 40CFR63.10021(e).6, requires performance tune-ups of EGUs to optimize combustion to minimize the generation of carbon monoxide (CO) and nitrogen oxides (NO_x). Black Hills Power must perform an inspection of the burner at least once every 36 calendar months.

The CO and O₂ Grid Installation project will install a carbon monoxide, excess oxygen grid on Wygen III to enable combustion tuning of burners while online. The grid will provide real time data to perform combustion tuning throughout the operating period and make adjustments as necessary. Black Hills Power will be able to control burn characteristics for pollution control. This system is necessary to meet the requirement of the utility MACT rule.

(2) A schedule for implementation of applicable projects:

The Wyodak Mercury Control Project is expected to be in service by April 1, 2015. The Wygen III CO and O₂ Grid Installation Project is expected to be in service by May 31, 2016.

(3) The public utility's costs and expenses for these projects:

Exhibit 4 reflects forecasted costs for eligible environmental improvements that are expected to be placed in service from February 15, 2015, through May 31, 2016. The Wyodak Mercury Control Project is estimated to cost approximately \$5,655,060, and Black Hills Power's ownership share of the project is approximately \$1,133,012. The Wygen III CO and O₂ Grid Installation project is estimated to cost approximately

\$270,896, and Black Hills Power's ownership share of the project is approximately \$140,866. Project costs include an allowance for funds used during construction instead of a current return on construction work in progress.

(4) Calculations to establish that the rate adjustment is consistent with the terms of the tariff established in SDCL 49-34A-98:

The calculation for the EIA rate for the period of June 1, 2015, through May 31, 2016, is provided on Exhibit 4, Schedule 4-1. The EIA revenue requirement, as supported on Schedule 4-2, is allocated to the customer classes based on production capacity allocators used in Black Hills Power's current general rate case, Docket EL14-026. The revenue requirement by customer class is then divided into the forecasted kWh sales for the 12-months ending May 2016. The rate per kWh is listed on page 3 of this Application.

Schedule 4-3 calculates the total rate base amount for the EIA. The rate base calculation includes Plant in Service, less Accumulated Depreciation and Accumulated Deferred Income Taxes. The Company proposes to apply the overall rate of return incorporated in the pending rate case settlement agreement in Docket EL14-026. Schedule 4-4 supports the operating expenses and taxes associated with the environmental improvements. The operating expenses include depreciation expense and the assessed Commission filing fee.

EIA PROPOSED RATE

The Company proposes to implement the following rates per kWh to be effective June 1, 2015:

Residential	\$0.00012/kWh
Small General Service	\$0.00012/kWh
Large General Service and Industrial	\$0.00009/kWh
Lighting	\$0.00007/kWh

The EIA rates are set forth in the EIA tariff sheet contained in Exhibits 2 and 3, attached hereto. The Company proposes to submit the revised Cost Adjustment Summary tariff sheet, Section No. 3C, Sheet No. 11, as a compliance filing after the Commission issues its decision in this docket.

Approximately 66,000 South Dakota retail customers are affected by the EIA rate change. The annual net increase in the cost of service is approximately \$161,000. The average bill impact for a typical residential electric customer using 650 kWh is approximately 0.08%.

NOTICE

The Company plans to provide notice to customers regarding the EIA rate through a bill message with the first bill for service under the proposed rate in accordance with South Dakota Administrative Rule 20:10:13:19. A customer notice will be displayed in the Black Hills Power

South Dakota district offices and has been attached as Exhibit 5. The Company will work with Commission Staff to determine if there are any suggestions to modify the notice to customers.

EXHIBITS

The following exhibits are provided in support of this Application and incorporated through this reference:

<u>Exhibit 1</u>	Report of Tariff Change
<u>Exhibit 2</u>	Legislative Format of Tariffs
<u>Exhibit 3</u>	Clean Format of Tariffs
<u>Exhibit 4</u>	Environmental Improvement Adjustment Calculation
<u>Exhibit 5</u>	Customer Notice

COMPANY CONTACTS

Copies of all notices, other correspondence and all inquiries concerning this Application should be sent to:

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CONCLUSION

WHEREFORE, Black Hills Power respectfully requests that the Commission enter an order effective June 1, 2015, approving the adjustment to the Company's electric rates set forth in this Application and the proposed tariffs.

Dated this 13th day of February, 2015.

BLACK HILLS POWER, INC.

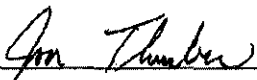
By: Jon Thurber
Jon Thurber
Manager, Regulatory Affairs

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

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STATE OF SOUTH DAKOTA)
COUNTY OF PENNINGTON) SS:

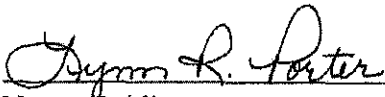
I, Jon Thurber, being duly sworn, do hereby depose and say that I am Manager, Regulatory Affairs for Black Hills Power, Inc., Applicant in the foregoing Application; that I have read such Application; and that the facts set forth therein are true and correct to the best of my knowledge, information,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



Jon Thurber
Manager, Regulatory Affairs

Subscribed and sworn to before me this 13th day of February, 2015.





Notary Public
Commission expires 12-1-20