
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: KRISTEN EDWARDS, ERIC PAULSON, AND JOSEPH REZAC
RE: DOCKET EL16-005 – IN THE MATTER OF THE FILING BY BLACK HILLS POWER, INC. DBA BLACK HILLS ENERGY FOR APPROVAL OF 2016 TRANSMISSION FACILITY ADJUSTMENT
DATE: May 3, 2016

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

BACKGROUND

On February 16, 2016, Black Hills Power dba Black Hills Energy (BHE or Company) filed an Application for Approval of Transmission Facility Adjustment (TFA) with the South Dakota Public Utilities Commission (Commission). The Company proposes their annual true-up of the actual amounts collected in the second year of the TFA, and the forecasted recovery of revenue requirements associated with the third year. BHE proposes TFA rates effective June 1, 2016 through May 31, 2017.

SDCL § 49-34A-25.1 through 25.4 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of new or modified transmission facilities with a design capacity of 34.5 kV or more and which are more than five miles in length.

In Docket EL12-061, the Commission approved the establishment of the TFA; however, no projects were included for recovery in the TFA at that time, resulting in a rate of \$0.0000 for all customer classes.

In Docket EL14-013, the Commission approved cost recovery of the Custer to Hot Springs 69 kV rebuild project, phases I and II, and the Lookout to Sundance Hill 69 kV rebuild project. Through joint planning studies performed in coordination with the co-owners of the 230 kV and 69 kV lines, BHE identified these two rebuild projects as necessary to ensure continued safe and reliable service to its customers.

In Docket EL15-007, the Commission approved cost recovery of the Lookout to Sundance Hill 69 kV rebuild project, and to credit the remaining amount from the Environmental Improvement Adjustment balancing account approved in docket EL14-037.

In this docket, BHE proposes to recover a revenue requirement of \$192,293, consisting of the forecasted revenue requirements of \$257,437 for the third year of the TFA less the \$65,144 true-up of actual amounts collected in the second year.

This third year revenue requirement is based on costs related to the Lookout to Sundance Hill line, a \$1,000,000 contribution made by Butte Electric Cooperative (Butte) on November 16, 2015, and the utilization of bonus depreciation. No new projects were added at this time.

The Company proposed to implement the following rates per kWh to the respective customer classes effective April 4, 2016:

Residential	\$0.00013
Small General Service	\$0.00016
Large General Service and Industrial	\$0.00010
Lighting Service	\$0.00013

STAFF'S ANALYSIS AND ADJUSTMENTS

Staff conducted a comprehensive review of BHE's filing, assessed the filing's compliance with the statutes authorizing the transmission facilities tariff mechanism, obtained additional information through discovery, and ultimately came to a determination based on this analysis.

JUNE 1, 2016 – MAY 31, 2017 TFA RIDER

The June 1, 2016 – May 31, 2017 TFA rates are based on the revenue requirements associated with the Lookout to Sundance Hill 69 kV rebuild project, a \$1,000,000 contribution made by Butte made on November 16, 2015, and the utilization of bonus depreciation. The Lookout to Sundance Hill project consists of rebuilding existing 69 kV lines due to the limited capacity rating for the existing conductors. The Lookout to Sundance Hill rebuild is approximately 13 miles.

Plant in Service – Plant in service was initially reduced by \$1,000,000 to reflect the investment made by Butte, and also reduced by approximately \$73,000 due to miscellaneous materials being returned to Border State Electric Supply and credited back to the work order. During discovery, it was found that an additional \$63,826 of capital costs needed to be removed from the TFA as these costs relate to a portion of the Lookout to Sundance Hill line that is not eligible for TFA recovery. The revised TFA Model reflects this change.

Other Operating Revenues – BHP has a joint ownership agreement with Rushmore Electric and its two members, Black Hills Electric Cooperative and Butte Electric Cooperative, for the co-owned portions of the 69 kV sub-transmission system. According to this agreement, each party has the right to own its load ratio share of jointly owned facilities.

With the investment of \$1,000,000 by Butte, Butte is now over invested in the system. Since Butte is overinvested, BHP must pay Butte on the overinvested portion of their investment.

During Staff's analysis it was discovered that the calculations for the Monthly Joint Ownership Agreement Revenues were incorrect. The revised TFA Model reflects the corrections made to the calculation.

On the revised Schedule 4-10 there are two lines for System Additions and one line for Investment. The first line for System Additions, line 3 of Schedule 4-10, is for the 5 months of the year two revenue requirement where Butte was underinvested and paying a fee like previous years.

The second line for System Additions, line 4 of Schedule 4-10, is for the 7 months of the year two revenue requirement where Butte is over invested. This System Additions fee calculation is based strictly

on BHE's portion of the investment, \$1,948,427. Butte is still required to pay its Joint Ownership Fees on BHE's investment in the line. Butte is responsible for approximately 18% of BHE's investment.

The Investment line, line 5 of Schedule 4-10, is for the 7 months of the year two revenue requirement where Butte is over invested. This fee calculation is based solely on Butte's portion of the investment, \$1,000,000. BHE is required to pay Butte its share of the Joint Ownership Fees on the overinvested portion of Butte's investment in the line. BHE is responsible for approximately 82% of Butte's investment.

The net effect of all changes mentioned above, is an increase in the year 2 revenue requirement by \$6,101 to \$288,575 and also an increase in the year 3 revenue requirement by \$14,809 to \$272,246. The revised TFA rates per kWh for the respective customer classes to be effective June 1, 2016 are as follows:

Residential	\$0.00015
Small General Service	\$0.00017
Large General Service and Industrial	\$0.00011
Lighting Service	\$0.00014

RECOMMENDATION

Staff recommends the Commission approve the revised Transmission Facilities Adjustment for the reasons stated above.