BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

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BLACK HILLS POWER, INC. d/b/a BLACK HILLS ENERGY'S APPLICATION FOR ADJUSTMENT IN ITS COGENERATION AND SMALL POWER PRODUCTION SERVICE SIMULTANEOUS NET BILLING GENERATION CREDIT RATE(S)

Docket EL16-042

BLACK HILLS POWER, INC. d/b/a BLACK HILLS ENERGY'S REPONSE TO MR. BELL'S RESPONSE

Mr. Bell's Petition to Intervene Response included a table that identifies a number of potential benefits of renewable distributed generation resources and indicates categorizes each benefit as either fully valued, undervalued or not included in the Company's avoided cost analysis. He indicated that the Company fully valued three categories: avoided energy, avoided T&D line losses and fuel hedging. The Company would like to address the benefits that Mr. Bell indicated were undervalued or not included in the avoided cost analysis.

In his response, Mr. Bell indicates that avoided generation capacity, avoided T&D capacity and fixed O&M and air pollutants were undervalued in the Company's avoided cost assessment. He asserts that capacity-related costs were not taken into consideration. The Company does not believe that avoided generation capacity was undervalued in the avoided cost assessment because the addition of a Qualifying Facility did not avoid or delay the addition of new capacity resources during the ten-year planning period (i.e. the addition of a new generation facility). The Company's modeling showed that the addition of a QF did avoid seasonal firm market purchases in some months of the Planning Period and the avoidance of these firm energy purchases was fully valued in the avoided cost calculation. Seasonal firm market purchases are short-term in nature and vary from year to year unlike the addition of a new generation facility. If, in the future, the addition of a QF avoids or delays the addition of a new generation facility the Company will include a capacity credit in its avoided cost rate. Similarly, the Company's existing transmission and distribution systems have not reached a capacity such that the addition of a QF will avoid new infrastructure additions, therefore, the Company did not include an avoided cost component for transmission and distribution capacity or avoided fixed operations and maintenance.

Mr. Bell also indicated that environmental avoided costs such as NOx, SO_x, particulate matter and CO₂ air pollutants were undervalued. The cost of reagents used to limit NO_x and SO₂ emissions were included in the variable operations and maintenance costs included in the

Company's avoided cost modeling. Therefore, if any generation from the Company's existing units was avoided, the reduction of these reagent costs was fully valued in the avoided cost rate. Particulate matter emissions at coal-fired generation units are limited through the use of baghouse equipment installed on each generator. The cost of this equipment is fixed and therefore not affected by the addition of a QF. Particulate matter emissions from gas-fired generation is not limited by equipment or agents and therefore no costs are avoided when generation at these units is reduced due to the addition of a QF. Similar to emissions, any reductions in water usage costs due to a reduction in generation are captured in the model because third-party water purchase costs are included in variable operations and maintenance expense.

Mr. Bell listed a number of benefits that he considered "not included" in the Company's avoided cost analysis. The Company is unsure what Mr. Bell means by "Grid support services" and "Grid security and resiliency" and is therefore unable to comment on those categories. Mr. Bell cites societal benefits such as job creation, economic development and avoided health impacts as benefits that were excluded from the Company's analysis, but are included in avoided cost calculations in other states. The Company did not include a specific avoided cost benefit for these factors in the avoided cost analysis and does not believe it is appropriate to do so.

Mr. Bell also asserts that avoided RPS, renewable costs or a REC value were not included in the avoided cost calculation. Black Hills is not subject to a Renewable Portfolio Standard, either at a state or national level, therefore the Company is not avoiding any REC associated costs.

Mr. Bell also asserts that the Company receives an excessive amount of profit on the electricity that is obtained from a residential renewable energy sources. Black Hills has an obligation to provide each and every customer access to safe and reliable power by building and maintaining the entire system (generation facilities, poles, wires and transformers) to handle everyone's maximum demand. The cost to build and maintain the system is passed on to each customer needing access to the system, including each small generator in the event that a disruptive force blocks their production source like the sun. The 500% mark-up in costs does not exist.

Mr. Bell also asserts that the model the Company used in determining the avoided costs was intentionally made to be complex and opaque. The model may be comprehensive but not complex and opaque as Mr. Bell thinks, as this same exact model is widely used throughout the electric power industry for many purposes. The same exact model is also used by neighboring utilities as the foundation for their avoided cost calculations. Because of the comprehensive nature of the model, the Company met with Mr. Bell and walked him through the complete model after he was granted intervention. At the conclusion of the walk through meeting, Mr. Bell seemed to have an understanding of the model. For further comfort that Mr. Bell had an understanding of the model, the Company reached out to him on numerous occasions after the

model walk through session, to answer any questions that he may have. Each time the Company reached out to Mr. Bell, no questions or concerns were raised; therefore, Mr. Bell cannot claim that transparency and opaqueness as an argument in this docket.

Dated this 22nd day of May, 2017

Respectfully submitted,

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Jason S. Keil Manager – Regulatory Black Hills Power, Inc. d/b/a Black Hills Energy