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January 27, 2010

Ms Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
500 East Capital
Pierre, SD 57504-5070

Re: Black Hills Power, Inc. – Energy Cost Adjustment

Dear Ms Van Gerpen:

Enclosed is the Energy Cost Adjustment for Black Hills Power. If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Chris Kilpatrick', is written over a light blue circular stamp.

Chris Kilpatrick

**BEFORE THE SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF BLACK HILLS)
POWER, INC.'S APPLICATION FOR)
APPROVAL OF ITS ELECTRIC COST) Docket No. _____
ADJUSTMENT)
)**

APPLICATION FOR ELECTRIC COST 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 the Electric Cost Adjustment (ECA) to its electric rates, to become effective on March 1, 2010. In support of its Application, Black Hills Power states as follows:

1. Black Hills Power is a public utility as defined under SDCL § 49-34A-1, with a business address of PO Box 1400, 625 Ninth Street, Rapid City, SD 57709.
2. This ECA filing is made in accordance with SDCL §49-34A and the Administrative Rules of South Dakota (ARSD) Chapter 20:10:13, which permit a public utility to pass on increases or decreases in costs to its customers. This Application sets forth the changes that the Company proposes to it’s ECA rates to be effective March 1, 2010. Black Hills Power requests that this rate adjustment be approved without the requirement of posting a bond or other security.
3. The ECA for Black Hills Power was approved in Docket No. EL06-019. The ECA consists of three separate adjustments: 1) the Conditional Energy Cost Adjustment (CECA); 2) the Transmission Cost Adjustment (TCA); and 3) the Steam Plant Fuel Cost Adjustment (SPFCA). Each adjustment applies to all rate schedules for all classes of service authorized by the Commission. Each adjustment is calculated annually by taking the net amount to be refunded or charged divided by the projected

South Dakota retail energy sales (kWh), thus deriving the adjustment per kWh. The three adjustments are combined into the ECA for each rate class, which increases or decreases the rate accordingly.

4. Conditional Energy Cost Adjustment (CECA). The CECA is calculated annually based on actual system costs for the Other Fuel and Purchased Power (OFAPP) for the previous calendar year as compared to the base year OFAPP costs, and includes an over or under recovery from prior years' adjustments through the Balancing Account. The calculation of the CECA is attached as Exhibit No. 3. The CECA for this period, for all customer classes, is \$0.00006/kWh.

The decrease in the CECA is primarily attributed to the lower cost per mega-Watt hour of the purchased power used to serve retail load.

5. Transmission Cost Adjustment (TCA). The TCA is calculated annually based on actual system transmission costs for the previous calendar year as compared to the base year transmission costs, and shall include an over or under recovery from prior years adjustments through the Balancing Account. The calculation of the TCA is attached as Exhibit No. 4. The TCA for each customer class is based upon Class Allocators, found in Table 1 of Section 3C, Third Revised Sheet No. 5. The TCA for this period for each class is as follows:

Customer Class Transmission Cost Adjustment

Residential Service	\$0.00270/kWh
Small General Service	\$0.00335/kWh
Large General Service	\$0.00246/kWh
Industrial Contract Service	\$0.00259/kWh
Lighting Service	\$0.00278/kWh

The increase in the TCA is primarily attributed to increased rates on the Common Use Transmission System, which took effect December 1, 2008, January 1, 2009 and October 1, 2009 for new transmission assets placed into service.

6. Steam Plant Fuel Cost Adjustment (SPFCA). The SPFCA recovers the fuel cost associated with the steam plant generation resources of Black Hills Power used to serve retail customers. The SPFCA is calculated annually based on actual system steam plant fuel costs for the previous calendar year as compared to the base year steam plant fuel costs, and includes an over or under recovery from prior years' adjustments through the Balancing Account. The calculation of the SPFCA is attached as Exhibit No. 5. The SPFCA for this period, for all customer classes, is \$0.00212/kWh.

The increase in the SPFCA is primarily attributed to the 4.5% increase in the cost of coal. The 4.5% increase is related to normal operations and does not have a significant cost driver.

7. The proposed ECA rate for each customer class is as follows:

Residential Service \$0.00488/kWh
Small General Service \$0.00553/kWh
Large General Service \$0.00464/kWh
Industrial Contract Service \$0.00477/kWh
Lighting Service \$0.00496/kWh

The detailed electric cost adjustments are set forth in the Energy Cost Adjustment Summary sheet contained in Exhibit No. 2, attached hereto.

8. Approximately 63,500 South Dakota retail customers are affected by the ECA rate change. The annual increase in the cost of service is \$841,222 or 0.75% higher than 2009 revenue.
9. Attached hereto as Exhibit No. 7 is a copy of the notice that has been provided to the public in accordance with ARSD § 20:10:13:15 and pursuant to §§ 20:10:13:17 to 20:10:13:19, inclusive.

10. In support of this Application, attached hereto and made a part hereof by this reference are Exhibit Nos. 1 through 7, showing supporting data for the proposed ECA:

- | | |
|----------------------|--|
| <u>Exhibit No. 1</u> | Report of Tariff Change |
| <u>Exhibit No. 2</u> | Energy Cost Adjustment Summary (Section No. 3C, Second Revised Sheet No. 11) |
| <u>Exhibit No. 3</u> | CECA Tariff calculation (Section No. 3C, Third Revised Sheet No.1) |
| <u>Exhibit No. 4</u> | TCA Tariff calculation (Section No. 3C, Third Revised Sheet No.5 and Second Revised Sheet No. 5A) |
| <u>Exhibit No. 5</u> | SPFCA Tariff calculation (Section No. 3C, Third Revised Sheet No.8) |
| <u>Exhibit No. 6</u> | Table of Contents (Section No. 1, Nineteenth Revised Sheet No. 1 and Section No. 1, Fifteenth Revised Sheet No. 3) |
| <u>Exhibit No. 7</u> | Notice to Customers |

WHEREFORE, Black Hills Power respectfully requests that the Commission enter an order approving the proposed tariffs and ECA rate, and placing the rate into effect for service on and after March 1, 2010.

Dated this 27th day of January, 2010.

BLACK HILLS POWER, INC.

By: _____

Chris Kilpatrick

Director of Rates- Electric Regulation

Report of Tariff Change

Name of Utility: Black Hills Power Inc.; PO Box 1400, 625 Ninth Street, Rapid City, SD 57709

Address of Main Office: PO Box 1400, 625 Ninth Street, Rapid City, SD 57709

Changes to Black Hills Power Inc.'s South Dakota Electric Rate Book:

- Section No. 3C, Second Revised Sheet No. 11
- Section No. 3C, Third Revised Sheet No.1
- Section No. 3C, Third Revised Sheet No.5
- Section No. 3C, Second Revised Sheet No. 5A
- Section No. 3C, Third Revised Sheet No.8
- Section No. 1, Nineteenth Revised Sheet No. 1
- Section No. 1, Fifteenth Revised Sheet No. 3

Description of the change: Electric Cost Adjustment to be implemented March 1, 2010

Reason for the change: To reflect the increase in the cost of service, as determined by the Conditional Energy Costs Adjustment, the Transmission Costs Adjustment, and the Steam Plant Fuel Cost Adjustment.

	Present Rate ¢/kWh	Proposed Rate ¢/kWh
Total Residential Service	0.326	0.488
Total Small General Service	0.330	0.553
Total Large General Service	0.324	0.464
Total Industrial Contract	0.322	0.477
Total Lighting Service	0.327	0.496

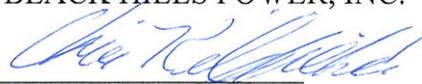
Approximation of annual amount of increase/(decrease) in revenue: \$2,113,926

Points affected: Approximately 63,500 South Dakota retail customers

Increase/(decrease) to cost of service: Approximately \$841,222

Remarks: The facts, opinions, documents and exhibits needed to support the proposed changes are included in the Application and exhibits thereto.

BLACK HILLS POWER, INC.

By: 
Chris Kilpatrick
Director of Rates-Electric Regulation

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No.	3C
Second Revised Sheet No.	11 (T)
Replaces First Sheet No.	11 (T)

ENERGY COST ADJUSTMENT SUMMARY

		Energy Cost Adjustment ¢/kWh	
	<u>Residential Service</u>	<u>ECA</u>	
1.	CECA	0.006	(R)
2.	TCA	0.270	(I)
3.	SPFCA	0.212	(I)
4.	Total Residential Service	0.488	(I)
	<u>Small General Service</u>		
5.	CECA	0.006	(R)
6.	TCA	0.335	(I)
7.	SPCFA	0.212	(I)
8.	Total Small General Service	0.553	(I)
	<u>Large General Service</u>		
9.	CECA	0.006	(R)
10.	TCA	0.246	(I)
11.	SPFCA	0.212	(I)
12.	Total Large General Service	0.464	(I)
	<u>Industrial Contract Service</u>		
13.	CECA	0.006	(R)
14.	TCA	0.259	(I)
15.	SPFCA	0.212	(I)
16.	Total Industrial Contract	0.477	(I)
	<u>Lighting Service</u>		
17.	CECA	0.006	(R)
18.	TCA	0.278	(I)
19.	SPFCA	0.212	(I)
20.	Total Lighting Service	0.496	(I)

CECA - Conditional Energy Cost Adjustment
TCA - Transmission Cost Adjustment
SPFCA - Steam Plant Fuel Cost Adjustment

SOUTH DAKOTA ELECTRIC RATE BOOK

	Section No.	3C
Page 1 of 4	Third Revised Sheet No.	1 (T)
	Replaces Second Revised Sheet No.	1 (T)

CONDITIONAL ENERGY COST ADJUSTMENT

APPLICABLE

This Conditional Energy Cost Adjustment (CECA) applies to all rate schedules for all classes of service authorized by the South Dakota Public Utilities Commission (Commission).

The CECA shall be calculated annually based on actual system costs for Other Fuel and Purchased Power (OFAPP) for the previous calendar year as compared to the base year OFAPP costs, and shall include an over-or-under recovery from prior year's adjustments through the Balancing Account. Black Hills Power, Inc. (the Company) will update and make a CECA filing with the Commission on an annual basis no later than February 10th.

<u>CONDITIONAL ENERGY COST ADJUSTMENT CALCULATION</u>		For the Year Ended December 31, 2009	(T)
1.	Annual System OFAPP Costs	\$ 17,717,497	(R)
2.	Annual System Energy Sales	2,285,473,928 kWh	(R)
3.	OFAPP Cost / kWh (Line 1 ÷ Line 2)	\$ 0.00775 /kWh	(R)
4.	Base OFAPP Costs	\$ 0.00817 /kWh	
5.	OFAPP Cost / kWh Difference (line 3 - Line 4)	\$ (0.00042) /kWh	(R)
6.	Total OFAPP Change from Base (Line 2 x Line 5)	\$ (959,899)	(R)
7.	Cost Reduction: \$0; Unless Line 6 < 0 and > -\$1,000,000, Then Line 6 x (-1)	\$ 959,899	(I)
8.	Cost Reduction per kWh (Line 7 ÷ Line 2)	\$ 0.00042 /kWh	
9.	Power Marketing Credit	\$ 0	(R)
10.	Power Marketing Credit / kWh (Line 9 ÷ Line 2)	\$ 0.00000 /kWh	(R)
11.	Net OFAPP Costs/kWh (Line 5 + Line 8 + Line 10)	\$ 0.00000 /kWh	(R)
12.	South Dakota Calendar Year Retail Energy Sales	1,430,800,272 kWh	(R)
13.	Total SD (Refund)/Charge (Line 11 x Line 12)	\$ 0	(R)
14.	Balancing Account (+/-)	\$ 86,826	(R)
15.	Net Amount to (Refund)/Charge (Line 13 + Line 14)	\$ 86,826	(R)
16.	Projected South Dakota Retail Energy Sales	1,459,416,273 kWh	(R)
17.	CECA (Line 15 ÷ Line 16)	\$ 0.00006 /kWh	(R)

SOUTH DAKOTA ELECTRIC RATE BOOK

	Section No.	3C	
	Third Revised Sheet No.	5	(T)
Page 1 of 4	Replaces Second Revised Sheet No.	5	(T)

TRANSMISSION COST ADJUSTMENT

APPLICABLE

This Transmission Cost Adjustment (TCA) applies to all rate schedules for all classes of service authorized by the South Dakota Public Utilities Commission (Commission). The TCA shall be calculated annually based on actual system transmission costs for the previous calendar year as compared to the base year transmission costs, and shall include an over-or-under recovery from prior years' adjustments through the Balancing Account. Black Hills Power, Inc. (the Company) will update and make a TCA filing with the Commission on an annual basis no later than February 10th.

<u>TRANSMISSION COST ADJUSTMENT CALCULATION</u>		For the Year Ended December 31, 2009	
1.	Annual System Transmission Costs	\$ <u>16,036,790</u>	(I)
2.	Power Marketing Transmission Costs	\$ <u>867,805</u>	(R)
3.	Transmission Costs Reimbursed by Others	\$ <u>683,598</u>	(R)
4.	Net Transmission Costs (Line 1 - Line 2 - Line 3)	\$ <u>14,485,387</u>	(I)
5.	Annual Retail Energy Sales	<u>1,640,176,496</u> kWh	(R)
6.	Adjusted Transmission Costs (Line 4 + Line 5)	\$ <u>0.00883</u> /kWh	(I)
7.	Base Transmission Costs	\$ 0.00599 /kWh	
8.	Difference (Line 6 - Line 7)	\$ <u>0.00284</u> /kWh	(I)
9.	South Dakota Calendar Year Retail Energy Sales	<u>1,430,800,272</u> kWh	(R)
10.	Transmission Costs to South Dakota (Line 8 x Line 9)	\$ <u>4,063,473</u>	(I)
11.	For Each Customer Class Calculate the Customer Class Allocation of Total South Dakota Transmission Expense Based Upon Class Allocators in Table 1 - Multiply Each Class Allocator by Line 10 - dollars per class.		
		Cust. Class Allocation Factor	Allocated Amount
	Residential Service	34.00%	1,381,581 (I)
	Small General Service	34.33%	1,394,990 (I)
	Large General Service	20.73%	842,358 (I)
	Industrial Contract Service	9.97%	405,128 (I)
	Lighting Service	0.97%	39,416 (I)

Continued on Next Page

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No.	3C	
Second Revised Sheet No.	5A	(T)
Replaces First Sheet No.	5A	(T)

TRANSMISSION COST ADJUSTMENT CALCULATION, Continued

12.	Balancing Account (+/-) for each SD Customer Class	<u>53,774</u>	(I)
	Residential Service	\$ 18,283	(I)
	Small General Service	\$ 18,461	(I)
	Large General Service	\$ 11,147	(I)
	Industrial Contract Service	\$ 5,361	(I)
	Lighting Service	\$ 522	(I)
13.	Total Transmission Cost for each SD Customer Class (Refund)/Charge (Line 11 + Line 12)		
	Residential Service	\$ 1,399,864	(I)
	Small General Service	\$ 1,413,451	(I)
	Large General Service	\$ 853,505	(I)
	Industrial Contract Service	\$ 410,489	(I)
	Lighting Service	\$ 39,938	(I)
14.	Forecast SD Customer Class Annual Retail Energy Sales (kWh/Class)		
	Residential Service	517,641,131	(R)
	Small General Service	421,814,252	(R)
	Large General Service	347,355,081	(R)
	Industrial Contract Service	158,216,597	(R)
	Lighting Service	14,389,212	(R)
15.	South Dakota Customer Class Transmission Cost Adjustment (Line 13/Line 14)		
	Residential Service	\$ <u>0.00270</u> /kWh	(I)
	Small General Service	\$ <u>0.00335</u> /kWh	(I)
	Large General Service	\$ <u>0.00246</u> /kWh	(I)
	Industrial Contract Service	\$ <u>0.00259</u> /kWh	(I)
	Lighting Service	\$ <u>0.00278</u> /kWh	(I)

SOUTH DAKOTA ELECTRIC RATE BOOK

	Section No.	3C
	Third Revised Sheet No.	8 (T)
Page 1 of 3	Replaces Second Revised Sheet No.	8 (T)

STEAM PLANT FUEL COST ADJUSTMENT

APPLICABLE

This Steam Plant Fuel Cost Adjustment (SPFCA) applies to all rate schedules for all classes of service authorized by the South Dakota Public Utilities Commission (Commission). The SPFCA shall recover the fuel costs associated with the steam plant generation resources of Black Hills Power, Inc. (the Company) used to serve retail customers.

The SPFCA shall be calculated annually based on actual system steam plant fuel costs for the previous calendar year as compared to the base year steam plant fuel costs, and shall included an over-or-under recovery from prior years' adjustments through the Balancing Account. The Company will update and make the SPFCA filing with the Commission on an annual basis no later than February 10th.

<u>STEAM PLANT FUEL COST ADJUSTMENT CALCULATION</u>	<u>For the Year Ended December 31, 2009</u>	(T)
1. Annual System Steam Plant Fuel Costs	\$ <u>20,400,362</u>	(I)
2. Power Marketing Steam Plant Fuel Costs	\$ <u>1,409,048</u>	(I)
3. Net Steam Plant Fuel Costs (Line 1 - Line 2)	\$ <u>18,991,314</u>	(I)
4. Annual System Energy Sales	<u>2,285,473,928</u> kWh	(R)
5. Adjusted Steam Plant Fuel Costs (Line 3 ÷ Line 4)	\$ <u>0.00831</u> /kWh	(I)
6. Base Steam Plant Fuel Costs	\$ <u>0.00631</u> /kWh	
7. Difference (Line 5 - Line 6)	\$ <u>0.00200</u> /kWh	(I)
8. South Dakota Calendar Year Retail Energy Sales	<u>1,430,800,272</u> kWh	(R)
9. Steam Plant Fuel Costs to South Dakota (Line 7 x Line 8)	\$ <u>2,861,601</u>	(I)
10. Balancing Account (+/-)	\$ <u>227,893</u>	(I)
11. Balance of Steam Plant Fuel Costs for South Dakota (Refund)/Charge (Line 9 + Line 10)	\$ <u>3,089,494</u>	(I)
12. Projected South Dakota Retail Energy Sales	<u>1,459,416,273</u> kWh	(R)
13. Steam Plant Fuel Cost Adjustment (Line 11 ÷ Line 12)	\$ <u>0.00212</u> /kWh	(I)



SOUTH DAKOTA ELECTRIC RATE BOOK

TABLE OF CONTENTS

Page 1 of 4

Section No. 1
Nineteenth Revised Sheet No. 1 (T)
Replaces Eighteenth Sheet No. 1 (T)

TABLE OF CONTENTS

SECTION 1 TABLE OF CONTENTS

Nineteenth Revised Sheet	1	Table of Contents	(T)
Sixteenth Revised Sheet	2	Table of Contents	
Fifteenth Revised Sheet	3	Table of Contents	
Seventh Revised Sheet	4	Table of Contents	(T)

SECTION 2 PRELIMINARY STATEMENTS

Second Revised Sheet	1	Statement and Codes	
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SECTION 3 RATE SCHEDULES

Tenth Revised Sheet	1	Residential Service	
Tenth Revised Sheet	2	Residential Service	
Tenth Revised Sheet	3	Total Electric Residential Service	
Tenth Revised Sheet	4	Total Electric Residential Service	
Eighth Revised Sheet	5	(Reserved)	
Eighth Revised Sheet	6	(Reserved)	
Tenth Revised Sheet	7	General Service	
Tenth Revised Sheet	8	General Service	
Tenth Revised Sheet	9	General Service – Total Electric	
Tenth Revised Sheet	10	General Service – Total Electric	
Tenth Revised Sheet	11	General Service – Large	
Tenth Revised Sheet	12	General Service – Large	
Tenth Revised Sheet	13	General Service – Large	
Tenth Revised Sheet	14	Industrial Contract Service	
Tenth Revised Sheet	15	Industrial Contract Service	
Twelfth Revised Sheet	16	Private or Public Area Lighting	
Twelfth Revised Sheet	17	Private or Public Area Lighting	
Twelfth Revised Sheet	18	Private or Public Area Lighting	
Tenth Revised Sheet	19	Irrigation Pumping	
Tenth Revised Sheet	20	Irrigation Pumping	
Eleventh Revised Sheet	21	Street Lighting	
Eleventh Revised Sheet	22	Street Lighting	
Eleventh Revised Sheet	23	Street Lighting	
Tenth Revised Sheet	24	Municipal Pumping	
Tenth Revised Sheet	25	Municipal Pumping	
Tenth Revised Sheet	26	Traffic Signals	
Tenth Revised Sheet	27	Traffic Signals	
Ninth Revised Sheet	28	Customer Service Charge	
Second Revised Sheet	29	Customer Service Charge	
Third Revised Sheet	30	Meter Test Deposits	
Fifth Revised Sheet	31	(Reserved)	



SOUTH DAKOTA ELECTRIC RATE BOOK

TABLE OF CONTENTS

Page 3 of 4

Section No. 1
Fifteenth Revised Sheet No. 3
Replaces Fourteenth Sheet No. 3

(T)
(T)

TABLE OF CONTENTS
(continued)

SECTION 3B COGENERATION RATE SCHEDULES

Third	Revised Sheet	4	Schedule 1 - Cogeneration and Small Power Production Service - Simultaneous Net Billing
Third	Revised Sheet	5	Schedule 1 - Cogeneration and Small Power Production Service - Simultaneous Net Billing
Third	Revised Sheet	6	Schedule 2 - Cogeneration and Small Power Production Service - Simultaneous Purchase and Sale
Third	Revised Sheet	7	Schedule 2 - Cogeneration and Small Power Production Service - Simultaneous Purchase and Sale
Third	Revised Sheet	8	Schedule 2 - Cogeneration and Small Power Production Service - Simultaneous Purchase and Sale
Third	Revised Sheet	9	Schedule 3 - Cogeneration and Small Power Production Service - Simultaneous Rider
Third	Revised Sheet	10	Schedule 3 - Cogeneration and Small Power Production Service - Simultaneous Rider

SECTION 3C ADJUSTMENT TARIFFS

Third	Revised Sheet	1	Conditional Energy Cost Adjustment	(T)
Original	Sheet	2	Conditional Energy Cost Adjustment	
Original	Sheet	3	Conditional Energy Cost Adjustment	
Original	Sheet	4	Conditional Energy Cost Adjustment	
Third	Revised Sheet	5	Transmission Cost Adjustment	(T)
Second	Revised Sheet	5A	Transmission Cost Adjustment	(T)
First	Revised Sheet	6	Transmission Cost Adjustment	
First	Revised Sheet	7	Transmission Cost Adjustment	
Third	Revised Sheet	8	Steam Plant Fuel Cost Adjustment	
Original	Sheet	9	Steam Plant Fuel Cost Adjustment	(T)
Original	Sheet	10	Steam Plant Fuel Cost Adjustment	
Second	Revised Sheet	11	Energy Cost Adjustment Summary	(T)

SECTION 4 CONTRACTS WITH DEVIATIONS

Ninth	Revised Sheet	1	Reserved
First	Revised Sheet	2	Business Development Service
First	Revised Sheet	3	Business Development Service
First	Revised Sheet	4	Business Development Service
Fifth	Revised Sheet	5	Summary List of Contracts with Deviations
Fourth	Revised Sheet	6	Summary List of Contracts with Deviations

In January 2010, Black Hills Power, Inc. filed an application with the South Dakota Public Utilities Commission (PUC) for a change to the Electric Cost Adjustment rate. This rate change affects all South Dakota Retail Customers. For the typical residential customer using 600 kWh per month, this adjustment will increase the electric bill by \$0.00162 per kWh or approximately \$0.97 per month.

The application is available in this office for inspection. Please inquire at the customer service desk.