

STATE OF SOUTH DAKOTA
BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)	Docket No. EL12-061
APPLICATION OF BLACK HILLS)	
POWER, INC., FOR AUTHORITY TO)	
INCREASE ITS ELECTRIC RATES)	

I. SETTLEMENT STIPULATION

On December 17, 2012, Black Hills Power, Inc. ("BHP") filed with the South Dakota Public Utilities Commission ("Commission") an application for approval to increase rates for electric services in the State of South Dakota ("Application"). BHP proposed an increase in annual revenues of approximately \$13.7 million or 9.94 percent of total retail revenues at existing rates.

On January 15, 2013, GCC Dacotah, Inc., Rushmore Forest Products, Inc., Spearfish Forest Products, Inc., Pete Lien & Sons, Inc., and Rapid City Regional Hospital (collectively "Black Hills Industrial Intervenors" or "BHII") filed a Petition to Intervene. The Commission issued its Order Granting Intervention to BHII on February 5, 2013.

On January 28, 2013, Regency Midwest Ventures Limited Partnership and Deadwood Resort, L.L.C. filed a Petition to Intervene. The Commission issued its Order Denying Intervention without Prejudice to Regency Midwest Ventures Limited Partnership and Deadwood Resort, L.L.C. on February 28, 2013.

On January 29, 2013, Wal-Mart Stores, Inc. and Sam's West, Inc. ("Wal-Mart") filed a Petition to Intervene. The Commission issued its Order Granting Intervention to Wal-Mart Stores, Inc., and Sam's West, Inc. on February 15, 2013.

On May 23, 2013, BHP filed a Joint Motion for Approval of Settlement Agreements, requesting the approval of contracts with deviations regarding 1) BHP and South Dakota Science and Technology Authority (SDSTA) and 2) BHP and Menards, Inc. d/b/a Midwest Manufacturing d/b/a Dakota Panel (Dakota Panel). On June 24, 2013, the Commission issued its order deferring until later in the process the approval of the contract with deviations of BHP and SDSTA and the contract with deviations of BHP and Dakota Panel, and the Commission conditionally authorized and approved, commencing June 16, 2013, (on an interim basis, subject to later approval and subject to certain conditions) such contracts with deviations between BHP and SDSTA and between BHP and Dakota Panel.

The Staff of the Commission ("Commission Staff") and BHP (jointly the "Parties") have been able to resolve all issues in this proceeding and have entered into this Settlement Stipulation ("Stipulation"), which, if accepted and ordered by the Commission, will determine the rates to result from BHP's Application.

BHP and BHII have reached a confidential settlement resolving all issues with related to BHII's intervention. BHP and Wal-Mart have reached a confidential settlement resolving all issues related to Wal-Mart's intervention.

II. PURPOSE

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving Docket No. EL12-061. The Parties acknowledge that they may have differing views that justify the end result, which they deem to be just and reasonable, and, in light of such differences, the Parties agree that the resolution of any single issue, whether express or implied by the Stipulation, should not be viewed as precedent setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

- 1) Upon execution of the Stipulation, the Parties shall file this Stipulation with the Commission together with a joint motion requesting that the Commission issue an order approving this Stipulation in its entirety without condition or modification.
- 2) This Stipulation includes all terms of settlement and is submitted with the condition that in the event the Commission imposes any material changes in or conditions to this Stipulation which are unacceptable to either Party, this Stipulation may, at the option of either Party, be withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose.
- 3) This Stipulation shall become binding upon execution by the Parties, provided however, that if this Stipulation does not become effective in accordance with Paragraph 2 above, it shall be null, void and privileged. This Stipulation is intended to relate only to the specific matter referred to herein; neither Party waives any claim or right which it may otherwise have with

respect to any matter not expressly provided for herein; neither Party shall be deemed to have approved, accepted, agreed or consented to any rate making principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or be prejudiced or bound thereby in any other current or future rate proceeding before the Commission. Neither Party nor a representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission relating to this Stipulation as precedent in any other current or future rate proceeding before the Commission.

- 4) The Parties to this proceeding stipulate that all prefiled testimony, exhibits, and workpapers will be made a part of the record in this proceeding. The Parties understand that if this matter had not been settled, Commission Staff would have filed direct testimony and BHP would have filed rebuttal testimony responding to certain of the positions contained in the testimony of Commission Staff.
- 5) It is understood that Commission Staff enters into this Stipulation for the benefit of all of BHP's South Dakota customers affected by this docket.

III. ELEMENTS OF THE SETTLEMENT STIPULATION

1. Revenue Requirement

The Parties agree that the total revenue deficiency is \$8,831,464. The Parties agree that BHP's tariffs will be designed to produce an increase in annual base rate levels of

\$8,831,464 or approximately 6.39% percent of total retail revenues at existing rates based on a South Dakota jurisdictional retail revenue requirement of \$146,959,761. The Parties agree to a 7.93% rate of return on rate base.

2. Tariffs

The Parties have agreed to revised tariffs and those tariffs are attached as Exhibit 1 to this Stipulation for presentation to the Commission.

The Parties agree that the rate design to be set forth in the revisions to BHP's tariffs are just and reasonable and provide for the movement of each customer class toward its associated cost of service. The Parties agree that the increase in rates for electric service will be allocated to the affected rate classes resulting in increases as shown on attached Exhibit 2. The Parties agree that the rates agreed to by the Parties result in just and reasonable rates for all of BHP's South Dakota customers.

Commission Staff and BHP agree that the revised rate schedules shall be implemented for service rendered on and after October 1, 2013, with the bills prorated so that usage prior to June 16, 2013, is billed at the previous rates, and usage on and after June 16, 2013, is billed at the new rates.

Interim rates were implemented on June 16, 2013. Approval of this Stipulation will authorize a rate increase less than the interim rate level in effect. BHP agrees to refund customers a portion of the interim rates collected during the period June 16 through September 30, 2013, with new rates beginning October 1, 2013. Attached hereto as Exhibit 3 is the Interim Rate Refund Plan.

The form of the Customer Notice is attached hereto as Exhibit 4.

3. Transmission Facility Cost Recovery Tariff

Commission Staff and BHP agree to the establishment of a transmission facility cost recovery tariff, as allowed by statute, effective June 16, 2013, which is set forth in the attached Exhibit 5. Commission Staff and BHP agree that the transmission facility cost recovery tariff does not determine future project eligibility or the mechanics of the revenue requirement calculations, which determinations will be made upon a future filing made by BHP for approval to recover project costs through the transmission facility cost recovery tariff.

4. Vegetation Management Regulatory Asset ("VMRA")

Commission Staff and BHP agree effective April 1, 2013, that BHP 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, VMRA shall be reduced by the difference between \$1,741,509, and said annual expenditure.
- 3) BHP 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 No. EL12-061.

- 4) BHP will provide annual reports to the Commission to demonstrate the actual vegetation management costs incurred. This report will also outline the progress made on the overall five year plan and update the forecast for the remaining years based on actual progress to date. The annual review by the Commission may include a review of the prudence of incurred costs, approval of the budget for the following year, and verification of the amount to be collected from customers in the future.
- 5) At the end of the five-year period, the principal balance in the VMRA account shall be amortized over a five-year period.
- 6) 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.

5. Final Approval of Contracts with Deviations

Commission Staff and BHP agree that the contracts with deviations, as filed on May 23, 2013, between BHP and SDSTA and between BHP and Dakota Panel and that are the subject of the Commission's Order Conditionally Authorizing and Approving Implementation of Contracts with Deviations, may and shall be finally approved by the Commission without condition.

6. Rate Case Expenses

Commission Staff and BHP agree that a total of \$261,813 in rate case expenses incurred in dockets EL12-061 and EL12-062 are to be amortized over a three year period and

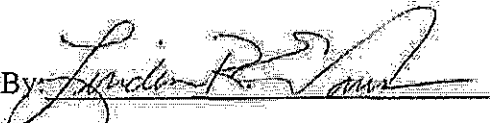
included in the revenue requirement. The rate case expenses incurred in excess of this amount will be recoverable in the next BHP rate case to be filed on or about April 1, 2014.

7. Generation Plant Overhaul Adjustment

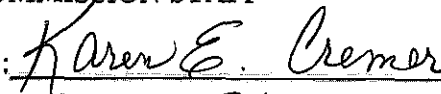
Commission Staff and BHP agree that the amount of plant overhaul accrued to date was \$728,757 for Ben French and Neil Simpson I. The South Dakota portion of this amount will be amortized over a three year period in the amount of \$217,097 per year plus an additional amount for current year major maintenance expense of \$289,434 that will be expensed the first year. All of these dollar amounts will be credited through the Energy Cost Adjustment (ECA) effective June 16, 2013. Accordingly, the amount to be amortized by year shall be \$506,531 in year one, \$217,097 in year two and \$217,097 in year three. See Exhibit 6 for the updated ECA Tariff sheet and rate.

This Stipulation is entered into effective this 6th day of September 2013.

BLACK HILLS POWER, INC.

By: 
Its: President and COO

SOUTH DAKOTA PUBLIC UTILITIES
COMMISSION STAFF

By: 
Its: Staff Attorney

Exhibits to Settlement Stipulation

Exhibit 1	Tariffs
Exhibit 2	Allocation of Rate Increase
Exhibit 3	Interim Rate Refund Plan
Exhibit 4	Form of Customer Notice
Exhibit 5	Transmission Facility Cost Recovery Tariff
Exhibit 6	Updated ECA Sheet and Rate