

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION)
OF BLACK HILLS POWER, INC., FOR)
THE PHASE IN OF RATES REGARDING)
CONSTRUCTION FINANCING COSTS)
OF CHEYENNE PRAIRIE GENERATING)
STATION)

Docket No. EL12-062

SETTLEMENT STIPULATION
(PUBLIC VERSION)

I. SETTLEMENT STIPULATION

On December 17, 2012, Black Hills Power, Inc. ("BHP" or "Company") filed with the South Dakota Public Utilities Commission ("Commission") an application for the phase in of rates regarding construction financing costs of Cheyenne Prairie Generating Station ("Application"). BHP proposed that the Commission 1) find that allowing the current recovery of Cheyenne Prairie Generating Station ("CPGS") construction financing costs is in the public interest, 2) approve the proposed tariff and interim quarterly phase in rates effective February 1, 2013, without suspension and subject to refund, in order to maximize benefits to customers and 3) enter an Order authorizing BHP to file its tariff sheets referenced to become effective February 1, 2013.

GCC Dacotah, Inc., Rushmore Forest Products, Inc., Spearfish Forest Products, Inc., Rapid City Regional Hospital and Pete Lien & Sons, Inc. (collectively, "Black Hills Industrial Intervenors") filed Petitions to Intervene and the Commission granted intervention to Black Hills Industrial Intervenors.

On January 8, 2013, the Staff of the Commission ("Commission Staff") and BHP filed a Joint Motion for Approval of Stipulation Regarding Effective Date of Interim Phase In Rates, whereby BHP's phase in rate plan would be effective commencing April 1, 2013, subject to refund until approved by the Commission and subject to true up and ongoing Commission review, and on January 13, 2013, the Commission entered an Order approving said Joint Motion.

BHP and Black Hills Industrial Intervenors have reached a confidential settlement resolving all issues related to the intervention of Black Hills Industrial Intervenors.

The 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 allow the current recovery of CPGS construction financing costs as being in the public interest, and further, Commission Staff has agreed that it will not oppose the inclusion of CPGS in rate base.

II. PURPOSE

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving Docket No. EL12-062. The Parties acknowledge that they may have differing views and reasons to support and justify the end result of the Stipulation, but each Party deems the end result to be just and reasonable. 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 inadmissible in this case or in any other case. This Stipulation is intended to relate only to the specific matters 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 ratemaking principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or either be advantaged or prejudiced or bound thereby in any other current or future proceeding before the Commission, except as necessary in accordance with Paragraph

III.3 below. Neither Party nor representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission as precedent in any other current or future rate proceeding or any other proceeding before the Commission, except as necessary in accordance with Paragraph III.3 below.

- 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 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 the Commission Staff enters into this Stipulation for the benefit of all of BHP's South Dakota customers affected by this docket. The Parties agree that this Stipulation is in the public interest and in its entirety, is reasonable. The Parties have agreed to present hearing testimony and evidence in support of this Stipulation and to acknowledge that their support and advocacy of the Stipulation is based upon a finding by the Commission that the Stipulation is in the public interest. The Parties stipulate to support all elements of this Stipulation as being in the public interest in proceedings before the Commission, and to advocate in good faith that the Commission approve this Stipulation in its entirety.

III. ELEMENTS OF THE SETTLEMENT STIPULATION

- 1) Phase In Rates: The Stipulation Regarding Effective Date of Interim Phase in Rates (attached to the Joint Motion filed by BHP and Commission Staff on January 8, 2013) shall remain in effect as approved by the Commission in its January 13, 2013 Order, and the phase in plan rate (“PIPR”) set forth therein shall be deemed approved upon such Commission Order approving this Stipulation.
- 2) Rate of Return: The capital structure and return on equity will be updated in a manner reasonably acceptable to Commission Staff and BHP to reflect the Commission’s decision in EL12-061. The debt costs will be updated with each compliance filing as proposed by BHP in EL12-062.
- 3) CPGS: Commission Staff agrees to support the Stipulation and not to oppose the inclusion of CPGS in rate base for determination of Company’s South Dakota revenue requirement in Company’s next and subsequent rate cases. In Company’s next rate case, Commission Staff retains the right to review the reasonableness of construction costs as compared to those costs included in the Application.
- 4) Resource Planning: Commission Staff and Company agree that in future Integrated Resource Plans, BHP shall incorporate the following in its analysis:
 - a. Weather normalized load projections – energy and capacity;

- b. Basis for low, mid and high case for load growth based on econometric or other similar analysis; and
 - c. Separate out retail load from wholesale load.
- 5) Natural Gas Procurement Plan: In light of the future expected increase in the use of natural gas, BHP will provide a natural gas procurement plan to Commission Staff on or before May 1, 2015.
- 6) ECA Credit: Agreement that 100% of long term (one year or greater) wholesale contract revenues will be credited through the Energy Cost Adjustments (“ECA”) for determining periodic fuel and purchase power adjustments, beginning on October 1, 2014, and continuing through December 31, 2021, except as outlined in #7 below.
- 7) [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

8)

[Redacted text block for item 8]

9)

[Redacted text block for item 9]

10)

[Redacted text block for item 10]

11)

[Redacted text block for item 11]

[REDACTED]

[REDACTED]

a. [REDACTED]

[REDACTED]

[REDACTED]

b. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

c. [REDACTED]

[REDACTED]

[REDACTED]

This Stipulation is entered into effective this ____ day of September, 2013.

BLACK HILLS POWER, INC.

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION STAFF

By: _____ /S/ _____

By: _____ /S/ _____

Its: _____

Its: _____