
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: KAREN CREMER, BRITTANY MEHLHAFF, AND PATRICK STEFFENSEN

RE: EL13-036 – In the Matter of the Application of Black Hills Power, Inc. for Approval of Deferred Accounting for Costs Incurred Due to Winter Storm Atlas Damage and to Transfer Remaining Plant Balance for the Soon to be Decommissioned Neil Simpson I, Osage, and Ben French Plants to a Regulatory Asset

DATE: January 2, 2014

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

BACKGROUND

WINTER STORM ATLAS

During the time period from October 3rd through October 5th, 2013, northeast Wyoming and western South Dakota experienced severe blizzard conditions. This winter storm accounted for the second heaviest snowstorm on record for Rapid City and caused the worst outages in Black Hills Power's (BHP) 130 year history. The BHP service territory experienced peak snow fall of 55 inches and peak winds of 71 miles per hour. This heavy snow and high wind, combined with fully leafed trees, contributed greatly to damage BHP facilities and leave as many as 41,800 customers without power.

BHP mobilized personnel, material, equipment, and crews of up to 500 employees and contractors averaging 13 to 16 hour days to restore power to 95% of BHP's customer base within 6 days. Repairing this vast damage far exceeded the \$60,211 average annual storm-related costs included in the cost of service in docket EL12-061. Incremental costs of Winter Storm Atlas, including additional labor, benefits, meals, lodging, materials, and supplies, was estimated to be approximately \$5 to \$6 million. Of this incremental cost, an estimated \$2 to \$2.5 million associated with replacing assets like poles, wire, and substation equipment, will be part of proposed rate base during the upcoming rate case, and is not part of this accounting order request. The remaining amount of \$3 to \$3.5 million in operation and maintenance expense, including costs incurred to patrol and scout the damaged areas, remove downed trees

and limbs that had fallen into the distribution lines, and to repair service lines to residential and commercial customers, is requested to be included as a regulatory asset in this filing. In response to Staff's data request¹, BHP provided actual costs through November 30, 2013, and remaining estimated costs to be finalized by the end of February 2014. The updated actual and estimated costs as of November 30, 2013, proposed to be included in the regulatory asset, totals approximately \$2.5 million.

This proposed accounting order would allow BHP to accumulate these incremental storm related costs in a regulatory asset and afford BHP the opportunity to seek possible future recovery of these deferred costs in its next rate case. In response to Staff's data request, BHP indicated it will request inclusion of Winter Storm Atlas costs in the next adjustment clause filing for rates effective June 2014. Staff recommends BHP request recovery of these deferred costs in its next rate case instead of the fuel clause as these storm costs are not fuel costs.

DECOMMISSIONING

Due to current and possibly future environmental regulations, BHP plans to retire Neil Simpson I, Osage, and Ben French by March 21, 2014. These three coal-fired power plants equipped with boilers of 25 MW or less are subject to the Environmental Protection Agency (EPA)'s National Emission Standards for Hazardous Air Pollutants for Area Sources: Industrial, Commercial, and Institutional Boilers (Area Sources Rules). The Area Source Rules require BHP either implement environmental control retrofits or retire the affected units. After evaluating the options, BHP concluded the most cost effective plan to comply with these rules is to retire Neil Simpson I, Osage, and Ben French by the compliance deadline of March 21, 2014.

The decommissioning process is estimated to commence in August 2014, beginning with the Osage plant. Decommissioning work on all three plants is estimated to be completed by September 2015.

BHP requests the Commission enter an accounting order allowing BHP to transfer the remaining plant balance for Ben French, Osage, and Neil Simpson I plants to a regulatory asset. BHP proposes to depreciate Neil Simpson I, Osage, and Ben French using existing depreciation rates until September 30, 2014. At that time, the remaining net plant balance will be transferred to a regulatory asset. BHP also requests the decommissioning costs, net of salvage value, in excess of the reserve associated with cost of removal, be included in the regulatory asset beginning October 2014. BHP estimates the total Company amount to be included in the decommissioning regulatory asset at \$14.5 million².

For ratemaking purposes, BHP will propose this regulatory asset be included as a component of rate base and associated amortization included as a component of the revenue requirement in

¹ See Attachment 1: BHP's response to Staff's data request 1-6

² See BHP's Application, Exhibit 1 – Estimated Regulatory Asset

its upcoming rate case. These costs will be reviewed for recovery and an amortization period will be determined during the rate case.

STAFF RECOMMENDATION

Staff recommends the Commission enter an order allowing BHP to use deferred accounting for costs incurred as a result of Winter Storm Atlas and authorizing BHP to transfer the remaining plant balance for the soon to be decommissioned Ben French, Osage, and Neil Simpson I plants to a regulatory asset, with the following conditions:

1. The accounting methods and the resulting regulatory assets shall not preclude Commission review of these amounts for reasonableness for rate recovery in any determination of rates, including both rate filings by BHP and rate reviews initiated by the Commission and does not guarantee any such recovery.
2. The allowance of a deferral/amortization accounting method and the resulting creation of a regulatory asset, after the related costs have been incurred, as is the case with the storm damage costs, is not to be interpreted as allowing future post expenditure deferrals. The Commission's decision in this case is based on the facts of this case and any future allowance of the deferral/amortization accounting method and the resulting creation of a regulatory asset must be approved by the Commission.