

**From:** PUC

**Sent:** Thursday, April 03, 2014 5:31 PM

**To:** 'ccm@goldenwest.net'

**Subject:** FW: BHP

Mr. Hiltunen:

Thank you for your message regarding Black Hills Power's rate case. You wrote in January regarding your concerns when BHP requested separate accounting for storm Atlas-related costs which were part of docket EL13-036: <http://www.puc.sd.gov/Dockets/Electric/2013/EL13-036.aspx>

Your messages and my response along with the other commissioners' were filed under "Comments and Responses" in this docket.

On Monday, March 31, BHP filed a rate application which seeks recovery of generation plant costs as well as in a much lesser measure, the storm's costs. Commission staff and the commissioners began the process of analyzing this rate case and the many documents and spreadsheets filed, in addition to documents we will request be submitted for analysis. This process takes months. You are welcome to follow along as the docket is processed by reviewing documents filed and posted on our web site. One issue that will be studied during the investigation is BHP's workforce and its compensation. However, it is important to remember that we are not investigating Black Hills Corporation which owns other regulated and non-regulated entities. Here is a link to the BHP rate case docket, EL14-026: <http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx>

I encourage you to follow the case so you can understand the reasons the company claims it needs rate recovery to provide safe, reliable electric service to its customers. The commission must regulate this public utility owned by shareholders (as opposed to no rate authority and very limited regulatory authority regarding rural electric cooperatives and municipal electric systems since they serve their own members/owners, and are owned and managed by members/owners). The commission's regulatory oversight must stay within the boundaries of federal and state laws which define the commission's authority. Commissioners cannot simply say, "No, you receive no rate increase, BHP" without investigating the case thoroughly. If the utility can justify the need for rate recovery of legally allowable costs, the commission must approve them. If the commission were to simply say, "No, these costs are a hardship for consumers," rejecting any increase outright, the utility would most certainly appeal their case to a higher court. The costs to conduct such an appeal would result in more expense to be borne by customers. A utility is allowed to pass along its costs regarding such filings and litigation to consumers. Therefore, the commission would not only be irresponsible and acting outside the laws governing it, it would cause your electric costs to increase even further.

As far as BHC's shareholders, they are legally allowed to earn a profit from their shares in the corporation. Those shareholders would obviously not invest their funds in BHC were they not allowed a return on their investment. The law creates what is referred to as ring-fencing between the various entities owned by BHC and the regulated utility subsidiary portion of their portfolio. The reason for this is so that a corporation cannot bleed profits from a utility in their portfolio, i.e. shaving utility costs leading to unsafe, unreliable electrical service. Both federal and state laws stand in the way of allowing an investor-owned utility to operate in this manner.

Utility rate cases require a significant investment of time to process thoroughly. Many of the documents filed are complicated and lead to more questions which mean more documents are requested of the utility, requiring more time and study. A team of commission staff analysts (four on this docket), a staff attorney and specialized financial consultants (as needed), work their way through the issues, along with commissioners and advisors who work separately in their investigation. If there are intervenors in the case, they also work separately to analyze the case. The law limits the commission to a one-year period to process the case from the company's filing to the commissioners' final ruling. Therefore, we must work thoroughly yet quickly. A year may seem ample to the casual observer, but keep in mind that while this rate case is being processed, a number of other dockets are also being filed and processed by the commission.

Here is a document which helps to explain the rate case process which may provide insight:

<http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

BHP is likely not the only utility in the state filing a rate case in 2014. Costs are increasing for numerous investor-owned, cooperative and municipal utilities across the United States and in South Dakota, as we are hearing in the news every day.

I hope this helps you understand the rate case process. Most importantly, I hope you can appreciate that none of us at the commission wish to raise your rates. We take our work seriously. However, we cannot simply refuse to consider any utility rate increase, regardless of the fact that if an increase is allowed, it will undoubtedly result in hardship for some consumers. If the increase is justified, whether a result of power plant replacements, new federal EPA rules, storm damage or transmission investments, the commission is obligated by law to allow it. Your message and my response will be filed in EL14-026 since this is an open docket.

Thank you for writing and expressing your opinion, and allowing me this opportunity to explain the commission's role with rate requests.

Gary Hanson, Chairman  
South Dakota Public Utilities Commission