

From: PUC

Sent: Tuesday, May 06, 2014 4:37 PM

To: [REDACTED]

Subject: FW: rate increase for Black Hills Power for October of 2014

Mr. Bauer:

This is in response to your May 4th email with several questions regarding the Black Hills Power rate case.

You ask why BHP does not break out the infrastructure charges from rates so when/if on-site power generation happens in a larger amount, they can bill for the infrastructure costs. It requires a delicate balance when designing a bill for utility customers that is both comprehensive and easily understood. While it is tempting to break out multiple components of an electric utility bill, it can be frustrating and confusing for most customers if the bill is broken down significantly. The Public Utilities Commission's staff members are involved with utility officials in designing a bill that satisfies most customer needs. The commission's staff deals with questions from investor-owned utilities' customers so those staff members have a good handle on what is often asked and understood. The goal is to have bills and bill explanations that make sense and answer questions for the vast majority of customers.

Your BHP bill currently has the following charges: Customer Charge, Energy Charge, and Cost Adjustment Summary. Items such as plant construction and maintenance are included in base rates, which are composed of the Customer Charge and Energy Charge. These rates can only be changed through the rate case process. If a customer has behind-the-meter generation and is using BHP for supplemental power, these fixed costs don't go away, regardless of whether or not the costs are listed separately on the bill. Here is a breakdown of the items in the Cost Summary Adjustment on BHP's bill which is the billing question most frequently asked:

EIA - Environmental Improvement Adjustment

EESA - Energy Efficiency Solutions Adjustment

TCA - Transmission Cost Adjustment

FPPA - Fuel and Purchased Power Adjustment

TFA - Transmission Facility Adjustment

The Energy Charge previously included some fuel, purchased power and transmission costs. Anything over or under these amounts was recovered through the FPPA and TCA. The Cost Adjustment Summary now includes the base fuel, purchased power and transmission costs, as well as the inputs listed above. By noting these separate components, BHP bills are more transparent and reveal specific costs associated with supplying electricity. These categories were scrutinized not only by staff, but by the other commissioners and me before BHP was allowed to recover them from customers. Prior to this step, the categories were part of legislation that was considered and approved by the South Dakota Legislature, allowing investor-owned utilities in the state to collect these specific costs from customers and providing regulatory oversight by the commission.

You question why customers must pay for the costs from storm Atlas, and why the company does not invest in burial of lines and tree trimming. State law provides that a utility has the right to recover the cost of insurance or damage to its facilities. If BHP carried insurance sufficient to cover the costs of all damage from storm Atlas, that insurance cost would be borne by you and other customers over a period of years. Therefore, it is important to weigh the cost to carry insurance that is sufficient to cover the expenses of extreme storms, similar to and even more extensive than storm Atlas, against the potential cost of the storm. Such a decision on insurance coverage is much like any individual must contemplate when deciding whether to carry liability-only insurance on a vehicle, or full coverage in case of an accident. As to whether BHP-purchased extensive coverage would have been more prudent or less expensive for you as a consumer is an answer I do not have at this point. That is something that will be analyzed over the course of this rate case.

As far as burying electric lines, the utility does have some lines that are buried. However, there is significant cost to bury electric lines and the cost to do so is borne by a utility's consumers via rates. Another consideration with line burial is that of maintenance and repair since that is also typically higher for underground lines. Therefore, while some buried lines usually make sense for a utility, burying all lines is usually not feasible or economical.

BHP does have a vegetation management program and in fact, it was on an accelerated tree trimming cycle at the time of the storm and continues to be. Atlas struck when most trees still had leaves on their branches and the storm's heavy moisture caused significant vegetation issues beyond what a typical winter storm would cause with ice and snow build-up. Keep in mind that the utility is allowed by law to pass on to its customers the expenses for tree trimming as part of their rates, just as is allowed for insurance and storm damage costs.

BHP is a public utility and as such, extensive laws at the federal and state levels govern it and also govern the commission as to regulatory oversight of the utility. The utility is allowed to pass along to its consumers most of the costs it incurs in providing you and all customers with electric service. This government oversight is in contrast to most other businesses providing us with services.

The cost of electricity is on the rise not only for you and me, but for other investor-owned, rural cooperative and municipal electric systems' customers throughout South Dakota and the U.S. We are hearing and reading reports in the news about this on a daily basis. The most-often-cited reason for the increased rates are new federal mandates, particularly those coming from the Environmental Protection Agency. American Electric Power reports that 65,000 MW of electric capacity are being retired largely because of EPA regulations. That is nearly 30 times the amount of electricity that the state of South Dakota uses at peak demand. EPA mandates was one of the four primary reasons cited by BHP in their filing of this rate increase request. You can read BHP official Vance Crocker's testimony about this in the docket, EL14-026: <http://www.puc.sd.gov/commission/dockets/electric/2014/EL14-026/crocker.pdf>

I hope this helps to answer your questions as far as what I am aware of at the present time. Your comments and my response will be filed in the open docket, and you can access the complete docket online at <http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx>

Given your questions and interest, I encourage you to follow along as this docket is processed and new documents are posted. Here is a document which helps explain the commission's processing of rate cases: <http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

Thank you for your message.

Gary Hanson, Chairman
South Dakota Public Utilities Commission