

**From:** PUC  
**Sent:** Wednesday, October 01, 2014 3:54 PM  
**To:** [REDACTED]  
**Subject:** Solar Producers and BHP, EL14-026

Mr. Bauer:

Thank you for your message regarding the home solar generation fees as part of the Black Hills Power rate case docket, EL14-026, now open before the commission.

You have a good point on the separation of the distribution and energy costs, however it must be expanded upon. Natural gas companies such as MDU are local distribution companies. The distribution delivery charge and the basic service charge on MDU natural gas customer bills allow the utility the opportunity to recover operations and maintenance costs and investment in the distribution system. These charges include costs that are either fixed costs or which may have some characteristics of fixed costs, and which all customers pay.

In addition to the distribution delivery charge and the basic service charge, MDU customers pay for the cost of gas. The wholesale pipeline company charges MDU for the gas delivered through the wholesale pipeline and that cost is then passed on to the customers. The resulting cost of gas charge includes both fixed and variable costs. The fixed costs are the “firm” (reserved gas supply and reserved pipeline delivery) natural gas costs paid in order to have enough on-demand gas to supply to customers during the heating season. Not all gas deliveries are firm, and such non-firm deliveries get a lower rate, but non-firm users can be interrupted at peak usage times. Thus, the distribution delivery charge on an MDU customer’s natural gas bill does not fully capture all fixed costs.

In contrast, electric utilities in South Dakota such as Black Hills Power, are vertically integrated utilities. They provide generation, transmission, and distribution services. This is unlike a natural gas utility that only provides distribution service. Firm natural gas costs are comparable to fixed generation costs (power plants) for electric utilities. Simply separating out distribution costs for an electric utility will not fully capture fixed costs. Traditionally, rates have not been designed to reflect all true fixed costs in a single charge. To do so would require a very large customer charge or service charge that customers are responsible for and would pay regardless of usage. If companies were to include all fixed costs in the customer charge, there likely would be considerable resistance from customers.

I hope this helps explain the cost categories and what costs they capture. I appreciate your interest in rate design and this rate case. Given your interest, I encourage you to follow along as the case is processed. Your comment and my response will be posted in the docket: <http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx>

Gary Hanson, Chairperson  
South Dakota Public Utilities Commission  
[www.puc.sd.gov](http://www.puc.sd.gov)