



Gary Hanson, Chairperson
Chris Nelson, Vice Chairperson
Kristie Fiegen, Commissioner

South Dakota

PUBLIC UTILITIES COMMISSION

500 East Capitol Avenue
Pierre, South Dakota 57501-5070
www.puc.sd.gov

Capitol Office
(605) 773-3201
1-866-757-6031 fax

Grain Warehouse
(605) 773-5280
(605) 773-3225 fax

Consumer Hotline
1-800-332-1782

June 30, 2014

Leo Cassidy
[REDACTED]

Dear Mr. Cassidy:

This is in response to your message regarding Black Hills Power's application to increase in electrical rates.

You relay that the increase is to build a new power plant to provide power out-of-state. Electric utilities such as BHP are required by law to provide safe, reliable service to customers. BHP must ensure the plants it relies upon to generate capacity are sufficient to meet customer demand. A utility's power plants may exist out of the state where some of their customers reside. There is no law forbidding this. Typically, new plants are built to replace aging plants or to meet new customer demands for electricity. Utilities build plants in locations that minimize costs and, thus, most are located next to existing transmission lines or fuel sources such as coal or oil fields or with railroad access. The best, most cost effective location for a new power plant may not be directly adjacent to customers or located in the same state as the customers.

BHP's South Dakota customers consume more electricity than the utility generates within the state, so a portion of the electricity serving our state is generated at BHP's power plants in Wyoming. This is also true of customers in eastern South Dakota served by Xcel Energy which imports power generation from Minnesota to serve Sioux Falls. Electricity generated at the Big Stone Plant near Milbank serves customers in not only South Dakota, but also Minnesota. There are many such examples. The electricity generated by BHP's Wyoming plant is carried to South Dakota customers via the transmission grid. Since Wyoming plants are used to supply electricity to South Dakota customers, it is just and reasonable that South Dakota customers must pay for their share of the plants. Our commission only authorizes recovery of power plant expenses that are specific to producing electricity for South Dakotans. I can assure you the commission will thoroughly examine the BHP request and if we grant any increase, it will be limited to what we believe is absolutely necessary. In fact, I am not aware of the commission ever granting a utility the full amount of increase requested.

Enclosed is a document explaining the commission's process for handling rate cases such as the BHP application before us. Your comment and my response will be filed in this rate case docket, EL14-026, so my fellow commissioners and all parties to the case may read them. You can see the complete docket by going to www.puc.sd.gov and clicking on Commission Actions, Commission Dockets, Electric Dockets, 2014 Electric Dockets, and scrolling down to EL14-026. I encourage you to learn about the case and follow along as documents are added throughout the processing of the case.

Thank you for taking the time to share your comment.

Sincerely,

Gary Hanson

Gary Hanson

Electric Rate Increase Requests

South Dakota Public Utilities Commission

This guide is intended to offer a simple overview of the Public Utilities Commission's process in considering a rate increase request from an electric service provider within its jurisdiction. This guide is informational and does not discuss all situations, variations and exceptions of the rate case process and proceedings of the PUC. See South Dakota Codified Law 49-34A for additional information, on the Internet at legis.sd.gov/statutes/Codified_Laws/QuickFind.aspx; enter 49-34A to view the chapter.

Electric Utilities in South Dakota

There are six investor-owned utility companies that provide electric service to specific geographic areas in South Dakota. These companies are owned by their investors and are managed as private enterprises. The PUC has regulatory authority, including ratemaking authority, over these investor-owned utilities: Black Hills Power, MidAmerican Energy Co., Montana-Dakota Utilities Co., NorthWestern Energy, Otter Tail Power Co. and Xcel Energy.

The PUC does not have ratemaking authority over electric cooperatives or municipal electric organizations. Each electric co-op is governed by a board of directors, elected by its membership. Municipal electric organizations are managed by the local government entity. The leadership of each of these groups is responsible for setting rates paid by its electric customers.

Rate Case Process

When an investor-owned electric utility wishes to modify its rates, it must seek permission from the PUC to do so. The company begins the process by filing an application with the PUC that states the proposed rate of increase for each of its customer classes – residential, commercial and industrial, for example – and the rationale for the requested increase. The PUC has six months to investigate and make a decision about a rate request before the utility may put interim rates into effect, subject to refund depending on the PUC's decision.

PUC Authority

The South Dakota Legislature gave the PUC authority to ensure utility companies in South Dakota provide safe and reliable service at fair and reasonable rates. In considering a rate case, the commission weighs the public's need for adequate, efficient and reasonable service and the need for the utility to collect revenues to enable it to meet its total current cost of furnishing such service and the opportunity to earn a fair and reasonable

return. The commission determines these factors based on definitions, standards and references specified in South Dakota Codified Law. In rendering its decision, the commission may approve, deny or approve with modifications the proposed rate increase as the commission finds appropriate and legally within its jurisdiction. The decision of the commission can be appealed to the circuit court and, ultimately, to the South Dakota Supreme Court.

The commission strives to issue a reasoned decision and modifications, where appropriate, that uphold the law and discourage a potentially expensive and lengthy appeal process.

PUC Staff Role

Members of the PUC staff assigned to work on a rate case typically include one attorney and several analysts. Staff attorneys have educational and practical experience in administrative law, business management principles and trial procedure. Staff analysts have expertise in accounting, economics, research and engineering. The staff conducts a comprehensive analysis of the company's request and gathers additional information from the company, intervenors and outside experts as necessary. Company operating expenses, employee benefits, executive compensation, corporate advertising, and the cost of generation and transmission facilities are among the many facets of the rate case the staff examines. In addition to reviewing the data and evidence submitted by the applicant and intervenors, PUC staff request and analyze opinions from experts and question the parties. The staff considers the information relative to state laws and rules and presents recommendations to the Public Utilities Commissioners.

See page 2 for information about public involvement.

Public Involvement

South Dakotans with an interest in a rate case have a variety of ways to stay informed and involved.

- **Review the electronic docket.** A docket is the continually updated collection of documents filed with the commission for a particular case. Dockets are accessible under the Commission Actions tab on the PUC Web site, www.puc.sd.gov. Dockets are labeled to correspond with their type and filing date. For example, Black Hills Power's rate case docket is EL14-026; EL for electric, 14 for 2014 and 026 to indicate it was the 26th electric docket filed with the commission in 2014.
- **Submit comments.** Members of the public are encouraged to relay written comments or questions about a rate case to the PUC. These informal public comments are filed in the docket and reviewed and considered by the PUC commissioners and staff. Public comments should include the docket number or name of the company proposing the rate increase, commenter's full name and mailing address as well as e-mail address and phone number, if available. These comments should be sent to puc@state.sd.us or PUC, 500 E. Capitol Ave., Pierre, SD 57501.
- **Become an intervenor.** Individuals who wish to be formal parties in a rate case may apply to the commission for intervenor status. Intervention deadline is clearly indicated within the docket. Intervention is appropriate for people who intend to actively participate in the case through legal motions, discovery (requests for facts or documents), the written preparation and presentation of actual evidence, and in-person participation in a formal hearing. Intervenors are legally obligated to respond to discovery from other parties and to submit to cross-examination at a formal hearing. Individuals seeking only to follow the progress of a rate case or to offer comments for the PUC's consideration need not become intervenors.

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E-mail: puc@state.sd.us