



Gary Hanson, Chairperson
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South Dakota

PUBLIC UTILITIES COMMISSION

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April 29, 2014

Pat Conger
[REDACTED]
[REDACTED]

Dear Pat:

This is in response to your letter received on April 24, 2014 regarding Black Hills Power's rate increase request to offset expenses incurred from the October 4, 2013 blizzard and the building of new power plants.

On March 31, 2014, BHP filed an application seeking recovery of generation plant costs as well as in far lesser measure, storm Atlas costs. This filing requests a 9.27 percent increase in electric revenues. Whether or not any increase is justified remains to be determined as the commission has just begun work on the case. Commission staff and commissioners are separately analyzing this rate case and the many documents and spreadsheets filed, in addition to other information staff and commissioners will request be submitted by BHP for review. Any other parties or intervenors in the case will also analyze the case on their own behalf. The investigation and processing of a rate case can take up to a year.

On March 21, 2011, the U.S. Environmental Protection Agency issued National Emission Standards for coal-fueled power plants. The deadline to comply with these new regulations is March 21, 2014. These new regulations brought with them significant costs and impacts to power suppliers which may be passed on to consumers with commission oversight. As a result of this, BHP analyzed the economics of whether to continue operating coal plants it owned and install environmental retrofits at significant expense or retire the plants and replace them with new power generation at significant expense. The utility had to choose one of these options in order to comply with the new EPA rules.

BHP and other utilities in the state have relied upon coal as a primary energy source. Now, consumers and rates across the state and the country are being affected by these federal mandates. The commissioners and staff understand rate increases are not welcomed by consumers, and none of us wish to see increased utility rates for South Dakotans. However, the commission must carefully review rate filings and process them in accordance with state law. Since BHP is a regulated public utility, the utility is subject to numerous state laws including those that determine what expenses are appropriate or allowed to be passed on to ratepayers. State law delegates the regulation of these public utilities to the commission. The commission must process a filed rate increase to determine what percentage increase, if any, is just and reasonable to be in compliance with state law. Simply saying no to a rate increase, regardless of utility company justification, is not an appropriate, lawful response by the commission.

As this case is investigated, staff analysts review BHP's employee salaries and benefits as well as numerous other utility expenses. Keep in mind that the commission oversees BHP and BHP is only one of the entities owned by Black Hills Corporation and its shareholders. However, the commission does not have regulatory authority over BHC and how this much larger entity operates or what it offers as salary and benefits to its employees. BHC owns several business entities, some with government oversight similar to what the commission has over BHP, and some with limited if any regulatory oversight.

The commission will also be looking at storm costs in order to determine which ones, if any, are appropriate for consumers of the utility to fund via rates. A public utility such as BHP is allowed by law to recover costs from its customers as long as the expenses are just and reasonable, and in alignment with the laws that regulate the utility.

I appreciate receiving your comments and welcome you to follow along as this docket is processed. You can review documents filed and posted on our web site. This docket, EL14-026, can be found by going to www.puc.sd.gov and clicking on Commission Actions, Commission Dockets, Electric Dockets, and 2014, then scrolling down the list of electric dockets. Your comment will be added to the docket. You may also wish to read the Electric Rate Increase Requests guide found on our site's home page.

Sincerely,


Gary Hanson