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*South Dakota*

**PUBLIC UTILITIES COMMISSION**

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March 11, 2015

Benita Hume

[REDACTED]  
Rapid City, SD 57701

Dear Ms. Hume:

This is in response to your letter about the Black Hills Power rate increase. I appreciate your concern about increased electric costs. None of us wishes to see our rates increase including my fellow commissioners and me. However, the law requires the commission allow utility rates that are proven reasonable and justifiable.

As noted in BHP's application, the utility requested an average increase of 9.25 percent and the commission approved a rate of 5.43 percent for residential customers. The BHP rates which went into effect on Oct. 1, 2014 were interim rates. By law, public utilities are allowed to implement their proposed increased rates once the required 180-day suspension ends. If the commission ultimately approves rates lower than the interim rates – as was done in this case, BHP must refund the difference in rates plus interest for the interim period to its customers. You will see this refund in May.

One item on consumers' BHP bills is the Cost Adjustment Summary and these charges consist of: 1) Environmental Improvement Adjustment (EIA), 2) Energy Efficiency Solutions Adjustment (EESA), 3) Transmission Cost Adjustment (TCA), 4) Fuel and Purchased Power Adjustment (FPPA), and 5) Transmission Facility Adjustment (TFA). All these charges are per kWh charges and require commission approval. An explanation of these charges with current rates can be found under Section 3C, pages 12 through 22 of BHP's tariff, available online at [www.puc.sd.gov](http://www.puc.sd.gov) by clicking on the tabs Energy, Electric, Electric Tariffs, and then Black Hills Power.

Items such as plant construction and maintenance are included in base rates, which are composed of the Customer Charge and Energy Charge. BHP can only change these rates through a rate case request application. Because BHP is a public utility and must operate within the laws that specifically govern public utilities, it cannot save in advance via customers' rates for plant construction or replacement or storm recovery costs. It must capture revenue for those expenses via customer rates. Rate increases to allow for such expenses must be improved by the Public Utilities Commission as required by law.

I understand that dealing with rising costs is challenging on a limited or fixed income such as social security in your situation. I commend you for being conservative with your energy consumption. If you are interested in learning about possible additional energy-saving tools, I encourage you to check out resources from BHP at [www.BHPsavemoney.com](http://www.BHPsavemoney.com) or by contacting BHP's Melanie Toney at (605) 721-1709.

When a utility files a rate case, the commission is obligated by law to thoroughly process the case. This usually takes most of a year to complete as this one did, and the law requires the commission complete its analysis and render a decision on a rate case within a one-year time frame. Each commissioner, the commission's staff and expert consultants hired by staff review the entire case – referred to as a docket – separately, along with any intervenors in the case. We request and review additional data and information from the utility before a decision is rendered.

The cost of electricity is rising for investor-owned, rural cooperative and municipal electric systems' customers throughout South Dakota and the U.S. South Dakota has six investor-owned electric utilities, and of these, four have open rate case request dockets before the commission. The most-cited reason for these increased rates is new federal mandates, particularly those from the Environmental Protection Agency. EPA mandates were among the reasons given by BHP in filing this rate increase request. You can read BHP official Vance Crocker's testimony about this in the docket. Go to [www.puc.sd.gov](http://www.puc.sd.gov) and click on Commission Actions, Commission Dockets, Electric Dockets, 2014 Electric Dockets, and scroll down to EL14-026.

The enclosed Electric Rate Case Requests Guide helps explain the commission's process in handling rate cases such as this.

Thank you for contacting the commission with your concerns. All discussion involving commissioners on the case must be available to the public. Therefore, your comments and my response will be filed in the docket.

Sincerely,

A handwritten signature in black ink that reads "Chris Nelson". The signature is written in a cursive, flowing style.

Chris Nelson