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**From:** PUC  
**Sent:** Monday, April 07, 2014 8:21 AM  
**To:** [REDACTED]  
**Subject:** FW: Black Hills Power

Mr. Jensen:

All of us at the commission agree with your statement that Black Hills Power has responsibilities to its consumers as well as to its shareholders. Our regulatory oversight at the commission is not over Black Hills Corporation's shareholders and its earnings, but over the BHP utility which is a subsidiary of BHC and one entity in BHC's portfolio. Some of the entities in that portfolio are also regulated and others have minimal government oversight. Investor-owned utilities must operate according to specific federal and state laws since they are considered monopolies.

You reference the investment in replacement power plants and wonder why the company did not save in advance for these expenses. Plant replacement is an allowable expense for BHP to pass along to its customers in a rate case. The commission must allow BHP or any such regulated utility to recoup reasonable, appropriate costs of plant replacement via rates. The company is not allowed to pass along rates to customers to collect funds (or stockpile savings) for future plant investments. In other words, as a BHP customer, you are not required to help pay for a BHP savings account to invest in a power plant in some future, undetermined timeframe. You may no longer be a customer of BHP at that point, and that save-for-the-future fund is simply not allowed without special regulatory legal authority backed by reasonable justification to do so.

We are in a cycle of utility rate increase filings. We had three rate dockets filed in 2013 of which two were transmission cost riders and one was an environmental cost rider. We had eight rate filings in 2012: two electric rate cases, one natural gas rate case, two TCRs, two ECRs, and one phase-in which allows utilities to phase-in rates prior to the commercial operation of the plant(s). We had three rate filings in 2011 and four in 2010. Between 1985 and 2009, the commission dealt with one, two or no such cases with the exceptions of three in 2007 and four in 1995. Therefore, we clearly believe we are back in a rate case cycle much like the state experienced between 1975 and 1983 when it processed four to nine rate cases per year.

What is the cause for these recent cases? The utilities' justification has included plant replacement costs, new EPA regulations, storm recovery costs, and new transmission investments. Recent laws passed by South Dakota's Legislature allowed for: transmission cost riders beginning in 2006; environmental cost riders beginning in 2007; and rate stability or phase-in rate increases beginning in 2012. These three laws allow utilities to file rate increases based on these specific investment justifications, and similar laws have been passed in numerous states primarily in response to new federal laws.

Likewise, utility rate increases are being seen not only in South Dakota, but across the United States as the news reveals. Increased rates are being passed on to customers in investor-owned utilities, in rural electric cooperatives and in municipal electric systems.

As commissioners, we do not wish to pass on rate increases to South Dakotans. However, we are obligated by law to thoroughly process every rate case request filed with the commission. We anticipate other South Dakota's investor-owned utilities may be filing rate cases during 2014 in addition to BHP.

We pledge that we will take this BHP case seriously and investigate it thoroughly. A team of five commission staff members including four utility analysts and one staff attorney are working on the case and they may enlist the assistance of special consultants to work on specific issues with them. Commissioners and commission advisors are also working on the case separately from staff, and if any intervenors file in the case, they will do their own investigation. Our aim as commissioners is to ensure that the rates that are a result of the case are just and reasonable, and ensure that safe, reliable electric service is provided to consumers like you.

Your message and this response will be filed in the EL14-026 docket for all parties of the case to read:

<http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx>

We encourage you to follow along through the processing of the case which may take up to a year and to learn more about the process as explained here: <http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

Thank you for your interest and for allowing us to explain the rate case process.

Gary Hanson  
Commissioner

Chris Nelson  
Commissioner

Kristie Fiegen  
Commissioner