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*South Dakota*

**PUBLIC UTILITIES COMMISSION**

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April 8, 2014

Kenneth Kochel  
[REDACTED]  
[REDACTED]

Mr. Kochel:

This is in response to your letter received on April 4, 2014 regarding the Black Hills Power rate increase request. Below are your questions followed by our responses.

*1. You just gave them an increase of 6.4 percent in October, 2013.*

The commission approved a 6.39 percent increase in electric revenues for the utility during a September 2013 meeting, resulting in an increase of 5.7 percent for the residential service customer class. This was a result of BHP filing a rate increase request in December 2012 requesting a 9.94 percent increase (8.94 percent for the residential service customer class). After significant study, the commission agreed with the settlement reached between BHP and commission staff.

On March 31, 2014, BHP filed an application seeking recovery of generation plant costs as well as in 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 seen as the commission has just begun studying the case. Commission staff and commissioners will analyze this rate case and the many documents and spreadsheets filed, in addition to other documents we request be submitted for analysis. This process takes months. You are welcome to follow along as the docket is processed by reviewing documents filed and posted on our web site. Here is a link to the BHP rate case docket, EL14-026: <http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx>

The commission's regulatory oversight must stay within the boundaries of federal and state laws which define the commission's authority. Commissioners cannot say no to any increase without investigating the case thoroughly. If the utility can justify the need for rate recovery of legally allowable costs, the commission must approve them. If the commission were to reject any increase outright, the utility would most certainly appeal their case to a higher court. The costs to conduct such an appeal and any further appeals would result in more expense to be borne by customers since a utility is allowed to pass along its costs regarding such filings and litigation to its customers. Therefore, the commission would not only be irresponsible and acting outside the laws governing it by rejecting the consideration of any increase, it would cause your electric costs to increase even further.



*2. They are a publicly traded company and as such they can raise capital by making a stock issuance. That is what stock is for.*

The commission's regulatory oversight is not over Black Hills Corporation's shareholders and its earnings, but over BHP, a 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.

BHC's shareholders are allowed to earn a profit from their shares in the corporation. Those shareholders would obviously not invest their funds in BHC were they not allowed a return on their investment. The law creates what is commonly referred to as ring-fencing between the various entities owned by BHC and the regulated utility subsidiary portion of their portfolio. The reason for this is so that a corporation cannot bleed profits from a utility in their portfolio, i.e. shaving utility costs leading to unsafe, unreliable electrical service. Both federal and state laws stand in the way of allowing an investor-owned utility to operate in this manner.

*3. Because they were not covered by insurance for the October 4th, 2013 blizzard is no justification for raising our rates. That is a cost of doing business and the costs should be recouped by reducing/eliminating stock dividends until the loss amount is recouped. Customers should not have to pay for this loss or excessive government regulations!*

*4. Vance Crocker's rationale for not purchasing insurance is "BUNK"! BHP&L should maintain a contingency fund to pay for Mother Nature's disasters. Homeowners have to pay for various disasters such as house settling because insurance companies won't cover them. Maybe BHP & L should be made to give us a 20% discount on our monthly bills until we recoup our losses, and any extra revenue we can squeeze out of them can be used to make other upgrades to our property in the future.*

The law allows for the utility to pass along the costs for generation plant replacement and improvements from the rates it charges customers. In this rate filing, BHP claims this is the largest portion of expense sought from this increase. A lesser portion is for expenses from storm Atlas. Yes, these are costs of doing business, but they are also costs that a regulated utility is allowed by law to recoup through rates charged to customers if the commission determines the costs are justified. If BHP did have insurance to cover all the storm costs, that insurance cost would also be allowed to be borne by customers. Either way, the utility's ratepayers are considered appropriate payers of this expense by law. A public utility does differ from consumers and most other business because it is a regulated utility and that is why special state and federal laws govern it. Again, the commission must regulate the utility within the boundaries of federal and state laws.

BHP is likely not the only utility in the state filing a rate case in 2014. Costs are increasing for numerous investor-owned, cooperative and municipal utilities across the United States and in South Dakota, as we are hearing in the news every day.

The commission is seeing a cycle of utility rate increase filings. Three rate dockets were filed in 2013 and eight rate filings in 2012. 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.

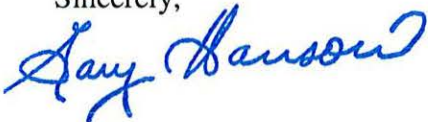
What is the cause for these recent cases? The utilities' justification has included plant replacement costs, new EPA regulations, new transmission investments, and storm recovery costs. Recent laws passed by South Dakota's Legislature allowed for: transmission cost riders beginning in 2006; environmental cost riders beginning in 2007; and rate stability or phase-in rate increases beginning in 2012. These 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.

We hope this answers your questions. We do not wish to raise your rates. However, if an increase is justified, the commission is obligated by law to allow it.

Your message and this response will be filed in the open docket, EL14-026:  
<http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx>

Sincerely,



Gary Hanson  
Commissioner



Chris Nelson  
Commissioner



Kristie Fiegen  
Commissioner