



Chris Nelson, Chairperson
Kristie Fiegen, Vice Chairperson
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South Dakota

PUBLIC UTILITIES COMMISSION

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January 30, 2015

Carol Merwin
[REDACTED]
[REDACTED]

Dear Ms. Merwin:

This is in response to your letter in today's mail regarding the Black Hills Power rate case increase request application currently being reviewed by the commission.

It is important to remember that the BHP rates which went into effect on Oct. 1, 2014 are 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, BHP will refund its customers the difference in rates plus interest for the interim period.

When a utility files a rate case with the commission, the commission is obligated by law to thoroughly process the case. We cannot simply reject it since we are required to investigate it and make a just and reasonable decision. This process can take almost a year to complete. Each commissioner, the commission's staff and expert consultants hired by staff will 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 commission does not have legal authority over a utility's resource plan, i.e. what generation resources the utility uses to create electricity – such as coal, natural gas, hydro, nuclear, solar or wind. That is not within the commission's regulatory authority.

You mention that there should be better balance between the welfare of customers and the shareholders. BHP is one entity owned by Black Hills Corporation's shareholders, along with several other entities. Since BHP is a public utility, federal and state laws govern how it must operate and how the commission must regulate it. However, the commission does not regulate BHC. The laws include what is commonly known as "ring-fencing" and this prevents an investor-owned utility of being stripped of its profits by shareholders. The purpose is to retain sufficient funds to operate the utility and reinvest in the system in order to provide safe, reliable service to the utility's customers.

The cost of electricity is on the rise not only for you and me, but for other investor-owned, rural cooperative and municipal electric systems' customers throughout South Dakota and the U.S. as we are learning in news reports daily. South Dakota has six investor-owned electric utilities, and of these, four currently 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. American Electric Power reports that 65,000

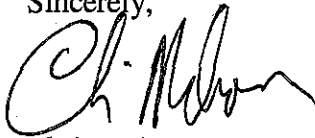
MW of electric capacity are being retired largely because of EPA regulations. That is nearly 30 times the amount of electricity the state of South Dakota uses at peak demand. EPA mandates were one of the four reasons cited by BHP in filing this rate increase request. You can read BHP official Vance Crocker's testimony about this in the docket, EL14-026, at

<http://www.puc.sd.gov/commission/dockets/electric/2014/EL14-026/crocker.pdf>

I appreciate your distaste for increased energy costs. None of us wishes to see our rates increase including my fellow commissioners and me. However, the law requires the commission to allow utility rates that are proven reasonable and justifiable.

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, appearing to read "Chris Nelson". The signature is stylized and cursive.

Chris Nelson