

From: PUC

Sent: Thursday, May 01, 2014 4:52 PM

To: [REDACTED]

Subject: FW: BHP&L rate increase

Ms. Ragels:

This is in response to your message regarding the recent Black Hills Power electric rate request increase filed with the South Dakota Public Utilities Commission. You relayed that you object to the utility's requested rate increase, and question that if a new natural gas-fired generating station is less expensive for customers, then why are they raising rates.

BHP representatives have relayed that the natural gas-fired generation is less expensive than other options they considered for new electric power generation. They reported that new generation sources are preferred over retrofitting older coal plants largely due to new environmental mandates from the federal Environmental Protection Agency. These mandates reportedly have significantly impacted environmental controls necessary for power plants, particularly coal plants. A quick online search on this topic will provide you with many similar reports from utilities and journalists across the country. The company also cited the cost of decommissioning coal plants and recovery of storm Atlas expenses as reasons for the rate increase request.

Here is an excerpt from the utility's filing, found in the direct testimony of BHP official Vance Crocker and available on the PUC's web site:

III. RATE CASE OVERVIEW

Q. WHAT ARE THE PRIMARY REASONS FOR THIS RATE CASE?

A. There are four primary reasons for this rate case. The first is the request that Cheyenne Prairie Generating Station ("CPGS") be added to rate base, coinciding with the in-service date of CPGS, and to add certain costs and expenses associated with CPGS as adjustments to the test year. Second, Black Hills Power will make significant investments in capital projects necessary to maintain, improve and replace infrastructure on our system. Third, as a result of the Environmental Protection Agency's ("EPA") Area Source Rules, Black Hills Power requests recovery of the costs related to the decommissioning of three of its coal-fired generation facilities. Fourth and finally, Black Hills Power requests recovery of the costs incurred to repair damage and restore service to its customers as a result of Winter Storm Atlas.

BHP filed their rate increase request on March 31, 2014. Commissioners, staff and expert consultants have begun analyzing this case, and most rate cases take up to one year to fully process due to the complex nature of

these dockets. Therefore, there is a great deal more investigation ahead of us. Meanwhile, the commission is also processing several other utility and telecommunications dockets, each with its own specific timeline. Numerous data requests and follow-up questions will be requested of BHP by me, my fellow commissioners, staff analysts and attorneys and expert consultants as the processing of this case continues. I encourage you to reference the docket to learn more about this case. Here is a link to the docket, EL14-026:

<http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx> And here is a link to a guide to Electric Rate Requests which may be helpful in understanding how such dockets are handled:
<http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

The cost of electricity is on the rise not only in our region of the country, but throughout the entire U.S. as we are hearing and reading in news reports daily. In South Dakota, we are seeing increased rates not only from investor-owned utilities which the commission regulates, but also from electric cooperatives and municipal electric systems. These reports reference the need to invest in new electric generation and transmission and environmental controls due to a variety of cost factors. One primary cost-driver cited continually is new EPA regulations electric service providers are dealing with and passing along to customers via electric rates.

I do not wish to see increased electric rates for South Dakotans. We all deal with increased costs for products and services and one more is never welcome. However, the law requires the commission to regulate investor-owned utilities in South Dakota and we have a legal obligation to process this rate request case accordingly. All three commissioners and the PUC staff take our obligation seriously as to the thorough and diligent processing of rate cases as well as the other dockets that come before us.

Thank you for your comment which will be added to the EL14-026 docket, in addition to my response.

Gary Hanson, Chairman
South Dakota Public Utilities Commission
