

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION)	SETTLEMENT STIPULATION
OF BLACK HILLS POWER, INC. FOR)	
AUTHORITY TO INCREASE ITS ELECTRIC)	EL14-026
RATES)	
)	
)	

It is hereby stipulated and agreed by and among Black Hills Power, Inc. ("Applicant" or "Black Hills Power") and the South Dakota Public Utilities Commission Staff ("Staff") (jointly "Party" or "Parties"), that the following Settlement Stipulation ("Stipulation") may be adopted by the South Dakota Public Utilities Commission ("Commission") in the above-captioned matter. In support of its Application for Authority to Increase Its Electric Rates ("Application"), Applicant does hereby offer this Stipulation, the Application and all supporting materials filed March 31, 2014, and thereafter. The Parties offer no answering testimony or exhibits, conditioned upon the Commission accepting the following Stipulation without any material condition or modification.

I. INTRODUCTION

On March 31, 2014, Black Hills Power filed with the Commission the aforementioned Application through which it requested authority to increase annual revenues by approximately \$14.6 million.

On June 6, 2014, GCC Dacotah, Inc., Pete Lien & Sons, Inc., Rushmore Forest Products, Inc., Spearfish Forest Products, Inc., Rapid City Regional Hospital, and Wharf Resources (U.S.A.), Inc. (collectively "BHII") filed a Petition to Intervene. On the same date,

Dakota Rural Action ("DRA") also filed a Petition to Intervene. The Commission issued its Order Granting Intervention to BHII and DRA on June 26, 2014.

On September 4, 2014, Black Hills Power filed a Motion for Approval of Settlement Agreement (SDSTA), requesting the approval of a contract with deviations with the South Dakota Science and Technology Authority ("SDSTA"). On September 18, 2014, the Commission entered an Order deferring until later in the process the approval of the contract with deviations between Black Hills Power and SDSTA. As an alternative to approving the contract with deviations at that time, the Commission conditionally authorized and approved implementation of the contract with deviations rates on an interim basis, commencing on October 1, 2014.

The Parties have been able to resolve all issues between them in this proceeding and have entered into this Stipulation, which, if accepted and ordered by the Commission, will determine the rates to result from Black Hills Power's Application. The Parties recognize that the Commission has granted intervention to BHII and DRA. The Intervenors are not parties to this Stipulation.

II. PURPOSE

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving the issues between them in Docket No. EL14-026. The Parties acknowledge that they may have differing views that justify the end result, which they deem to be just and reasonable, and, in light of such differences, the Parties agree that the resolution of any single issue, whether express or implied by the Stipulation, should not be viewed as precedent setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

- 1) Upon execution of the Stipulation, the Parties shall file this Stipulation with the Commission together with a joint motion requesting that the Commission issue an order approving this Stipulation in its entirety without condition or modification.
- 2) This Stipulation includes all terms of settlement and is submitted with the condition that in the event the Commission imposes any material changes in or conditions to this Stipulation which are unacceptable to either Party, this Stipulation may, at the option of either Party, be withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose.
- 3) This Stipulation shall become binding upon execution by the Parties, provided however, that if this Stipulation does not become effective in accordance with Paragraph 2 above, it shall be null, void, and privileged. This Stipulation is intended to relate only to the specific matters referred to herein; neither Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; neither Party shall be deemed to have approved, accepted, agreed, or consented to any ratemaking principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or be advantaged or prejudiced or bound thereby in any other current or future rate proceeding before the Commission. Neither Party nor a representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission

relating to this Stipulation as precedent in any other current or future rate proceeding or any other proceeding before the Commission.

- 4) The Parties to this proceeding stipulate that all prefiled testimony, exhibits, and workpapers will be made a part of the record in this proceeding. The Parties understand that if this matter had not been settled, Commission Staff would have filed direct testimony and Black Hills Power would have filed rebuttal testimony responding to certain of the positions contained in the testimony of Commission Staff.
- 5) It is understood that Commission Staff enters into this Stipulation for the benefit of all of Black Hills Power's South Dakota customers affected by this docket.

III. ELEMENTS OF THE SETTLEMENT STIPULATION

1. Revenue Requirement

The Parties agree that the total revenue deficiency is \$6,890,746. The Parties agree that Black Hills Power's tariffs will be designed to produce an increase in annual base rate levels of \$6,890,746 or approximately 4.35% of total retail revenues at existing rates based on a South Dakota jurisdictional retail revenue requirement of \$165,122,614. The Parties agree to a 7.76% rate of return on rate base.

2. Tariffs

The Parties have agreed to revised tariffs and those tariffs are attached as Exhibit 1 to this Stipulation for presentation to the Commission.

The Parties agree that the rate design to be set forth in the revisions to Black Hills Power's tariffs are just and reasonable and provide for the movement of each customer class

toward its associated cost of service. The Parties agree that the increase in rates for electric service will be allocated to the affected rate classes resulting in increases as shown on attached Exhibit 2. The Parties agree that the rates agreed to by the Parties result in just and reasonable rates for all of Black Hills Power's South Dakota customers.

The Parties agree that the revised rate schedules shall be implemented for service rendered on and after March 1, 2015, with the bills prorated so that usage prior to October 1, 2014, is billed at the previous rates, and usage on and after October 1, 2014, is billed at the new rates.

3. Interim Rate Refund

Interim rates were implemented on October 1, 2014. Approval of this Stipulation will authorize a rate increase less than the interim rate level in effect. Black Hills Power agrees to refund customers a portion of the interim rates collected during the period October 1, 2014, through the effective date of new rates, plus interest. Attached hereto as Exhibit 3 is the Interim Rate Refund Plan. The form of the Customer Notice is attached hereto as Exhibit 4.

4. Depreciation Expense

The Parties agree that the depreciation lives and rates presented in this rate case will be the ones in effect with the approval of this Stipulation. The depreciable life of the Cheyenne Prairie Generating Station is 40 years with a depreciation rate of 2.98%.

5. Decommissioning Expense

The Parties agree that the total company decommissioning cost of \$9,930,958 is included in the Decommissioning amortization identified in the 10th element of the Stipulation below and included in the revenue requirement. This amount includes the cost of decommissioning the Ben French, Neil Simpson I, and Osage coal-fired generation facilities,

and does not include any contingency. The Parties agree that Black Hills Power may seek recovery, in a future Black Hills Power rate case, of all costs for decommissioning not otherwise recovered from customers.

6. Rate Case Expense

The Parties agree that a total of \$212,861 in rate case expense associated with Docket EL14-026 is included in the Rate Case Expense amortization identified in the 10th element of the Stipulation below and included in the revenue requirement. Actual rate case expenses incurred in excess of this amount will be recoverable in the next Black Hills Power rate case to the extent those expenses are deemed necessary and reasonable.

7. Economic Development

The Parties agree that economic development expenses up to \$100,000 shall be equally shared by shareholders (\$50,000) and customers (\$50,000). The economic development expenses shall include, but not be limited to, all South Dakota labor, expenses, and monetary contributions. This program will begin on October 1, 2014, and shall continue thereafter until revised by the Commission. Black Hills Power will submit, on an annual basis, no later than March 1st of each year beginning in 2015, for Commission approval a filing which describes the cost, design, and benefit of Black Hills Power's economic development programs. Program costs will be reported on a calendar year basis. Any portion of the annual customer contribution that remains unspent at the end of a program year shall be carried over into the next program year for Commission approval of expenditures or refund. No carry over shall occur for amounts spent annually in excess of \$100,000. This agreement does not preclude Black Hills Power from spending more on economic development nor does it restrict Black

Hills Power from asking for modification of these economic development terms in its next general rate filing.

8. Cheyenne Prairie Generating Station Compliance Report

Black Hills Power agrees to file an informational report by February 28, 2015, on the remaining Cheyenne Prairie Generating Station capital projects, specifically the auxiliary boiler, testing, site finish work, and internal closeout labor.

9. Major Maintenance Accrual

The Parties agree to define major maintenance for steam plants as the expenses incurred during the period of time when a steam turbine generator is opened for maintenance.

10. Amortization

The Parties agree that amortizations being recovered in rates under the terms of the Stipulation include the following where the cost (SD Amount Amortized) will be deferred and amortized over the periods shown:

<u>Item</u>	<u>SD Amount Amortized (\$)</u>	<u>Amortization Period (years)</u>	<u>SD Annual Amount</u>
Rate Case Expense	\$625,657	3	\$208,552
Decommissioning	\$14,685,070	10	\$1,468,507
Winter Storm Atlas	\$3,157,426	10	\$315,743
69 kV LIDAR Surveying	\$320,533	5	\$64,107

a. Rate Case Expense

The Parties agree that the unamortized actual rate case expenses from Dockets EL12-061 and EL12-062 will be combined with the current actual rate case expenses from Docket EL14-026 and will be deferred, amortized and recovered over three (3)

years. The Parties agree that the average unamortized balance of \$369,191 will be included as a component of rate base. As a result of the Parties' agreement on the treatment of rate case expenses in this Stipulation, the Commission's approval of the treatment of rate case expenses in Dockets EL12-061 and EL12-062 is superseded upon approval of this Stipulation.

b. Decommissioning

The Parties agree that the net book value, inventory, and decommissioning costs associated with the Ben French, Neil Simpson I, and Osage coal-fired generation facilities will be deferred, amortized and recovered over ten (10) years. The Parties agree that the unamortized balance of \$12,482,309 will be included as a component of rate base.

c. Winter Storm Atlas

The Parties agree that the incremental costs associated with Winter Storm Atlas and the South Dakota System Line Inspection will be deferred, amortized, and recovered over ten (10) years. The Parties agree that the unamortized balance of \$2,683,812 will be included as a component of rate base.

d. 69 kV LIDAR Surveying Project

The Parties agree that the 69 kV LIDAR surveying costs will be deferred, amortized and recovered over five (5) years. The Parties agree that the unamortized balance of \$154,093 will be included as a component of rate base.

11. Pension Expense

The Parties agree that pension expense should be normalized. A five year normalization period was used in this case. The Parties agree this normalization period shall be used in future

rate cases over the next five years unless there is an extraordinary event that makes a five-year normalization method unreasonable.

12. Final Approval of Contracts with Deviations

The Parties agree that the contract with deviations, as filed on September 4, 2014, between Black Hills Power and SDSTA that is the subject of the Commission's Order Conditionally Authorizing and Approving Implementation of Contracts with Deviations, should be finally approved by the Commission without condition, and agree to support their final approval without condition.

13. Moratorium

- A. The Parties agree that Black Hills Power shall not file any rate application for an increase in base rates which would go into effect prior to October 1, 2016; provided, this restriction would not prevent Black Hills Power from filing for a base rate increase to take effect prior to October 1, 2016, if Black Hills Power's cost of service is expected to increase due to an "Extraordinary Event." The Parties agree that this rate moratorium does not apply to any rider or other adjustment mechanism, including, but not limited to, the Energy Cost Adjustments, Environmental Improvement Adjustment, Transmission Facility Adjustment, Energy Efficiency Solutions Adjustment, and Phase In Plan Rate.
- B. As used in this Stipulation "Extraordinary Event" is any one of the following occurrences:
- 1) *Governmental Impositions* – Changes in federal, state or local governmental requirements or governmental charges including, but not limited to, income taxes, taxes, charges or regulations imposed on energy, emissions, environmental externalities, or reclamation requirements imposed after October 1, 2014, upon Black Hills Power that are projected to cause its South Dakota cost of service to increase by \$1,000,000 or greater.

Increases in Black Hills Power's South Dakota cost of service that are less than \$1,000,000 will be presumed not to be material for the purposes of this paragraph.

2) *Major Capital Additions* – New capital projects with individual budgets greater than \$10,000,000.

3) *Loss of a Major Customer* – Black Hills Power is expected to lose \$2,000,000 or more of annual revenue from a single customer's accounts.

4) *Loss of Power Supply* – Black Hills Power loses power available from its power generation or purchase power contracts in an amount of 10 megawatts or more for a period forecasted to be at least six (6) months in duration.

This Stipulation is entered into effective this 8th day of December, 2014.

BLACK HILLS POWER, INC.

By: *Kyle White*
Kyle White

Its: *V.P. of Regulatory Affairs*

SOUTH DAKOTA PUBLIC UTILITIES
COMMISSION STAFF

By: *Karen E. Cremer*
Karen E. Cremer

Its: Staff Attorney

Exhibits to Settlement Stipulation

Exhibit 1	Tariffs
Exhibit 2	Allocation of Rate Increase
Exhibit 3	Interim Rate Refund Plan
Exhibit 4	Form of Customer Notice