

---

---

**STAFF MEMORANDUM**

---

---

**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** KAREN CREMER, PATRICK STEFFENSEN, ERIC PAULSON, AND JOSEPH REZAC  
**RE:** Docket EL15-007 - In the Matter of the Application of Black Hills Power, Inc. for Approval of Transmission Facilities Adjustment  
**DATE:** May 19, 2015

---

Commission Staff (Staff) submits this memorandum regarding its recommendations for the above-captioned matter.

**BACKGROUND**

On February 12, 2015, Black Hills Power, Inc. (BHP or Company) filed an Application for Approval of Transmission Facilities Adjustment (TFA) with the South Dakota Public Utilities Commission (Commission). In this filing, the Company proposes their annual true-up of the actual amounts collected in the first year of the TFA and the forecasted recovery of revenue requirements associated with the second year. BHP proposes TFA rates effective June 1, 2015, through May 31, 2016.

SDCL § 49-34A-25.1 through 25.4 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of new or modified transmission facilities with a design capacity of 34.5 kV or more and which are more than five miles in length.

In Docket EL12-061, the Commission approved the establishment of the TFA; however, no projects were included for recovery in the TFA at that time, resulting in a rate of \$0.0000 for all customer classes.

In Docket EL14-013, BHP requested cost recovery of the Custer to Hot Springs 69 kV rebuild project, phases I and II, and the Lookout to Sundance Hill 69 kV rebuild project. Through joint planning studies performed in coordination with the co-owners of the 230 kV and 69 kV lines, BHP identified these two rebuild projects as necessary to ensure continued safe and reliable service to its customers.

In this docket, BHP proposes to recover a revenue requirement of \$198,960, consisting of the forecasted revenue requirements of \$353,298 for the second year of the TFA less the \$154,338 true-up of actual amounts collected in the first year. It should be noted that \$75,613 of this true-up amount comes from an adjusted first year revenue requirement due to a credit of the remaining Environmental Improvement Adjustment balancing account amount approved in Docket EL14-037.

This second year revenue requirement is based on an estimated cost of the Lookout to Sundance Hill project. The second year revenue requirement does not contain dollars associated with the Custer to Hot Springs project, as the Commission approved BHP's request to shift cost recovery of this project from the TFA to base rates in Docket EL14-026.

The Company proposes to implement the following rates per kWh to the respective customer classes effective June 1, 2015:

Residential	\$0.00012
Small General Service	\$0.00017
Large General Service and Industrial	\$0.00011
Lighting Service	\$0.00022

## **STAFF'S ANALYSIS AND SETTLEMENT RESOLUTIONS**

Staff conducted a comprehensive review of BHP's filing, assessed the filing's compliance with the statutes authorizing the transmission facilities tariff mechanism, obtained additional information through discovery, and ultimately came to a determination based on this analysis.

### **JUNE 1, 2015 – MAY 31, 2016 TFA RIDER**

The June 1, 2015 – May 31, 2016 TFA rates are based on the revenue requirements associated with the Lookout to Sundance Hill 69 kV rebuild project. The project consists of rebuilding existing 69 kV lines due to the limited capacity rating for the existing conductors. The Lookout to Sundance Hill rebuild is approximately 13 miles.

SDCL § 49-34A-25.1 allows utilities to include costs associated with transmission facilities in the TFA rider with a design capacity of 34.5 kV or more and which are more than five miles in length. While the lines meet the "34.5 kV or more" requirement, Staff had concerns with whether the lines qualify as transmission facilities as opposed to serving distribution functions. Following BHP's explanation regarding the function of its 69 kV sub-transmission system<sup>1</sup>, Staff agrees the lines are eligible for inclusion in the TFA rider under SDCL § 49-34A-25.1.

The TFA legislation also requires consideration of whether the projects have and are expected to achieve transmission system improvements at the lowest reasonable cost to ratepayers. As noted in the Company's application, a competitive bid process is required for procurement contracts greater than \$10,000. In response to discovery, BHP provided additional information about the contractor selected for the Lookout to Sundance Hill project. Staff reviewed the actual project costs and bids obtained by the Company to confirm the bidding process for this project resulted in just and reasonable rates and achieved the lowest reasonable cost for ratepayers.

Unless otherwise noted, all of the changes discussed below are changes from the Company's originally filed position.

**Plant in Service** – The Company provided estimated capital costs for the Lookout to Sundance Hill project based on budgets. During discovery, BHP provided actual capital costs. The revised schedules filed on May 19, 2015 reflect these actual costs. This change reduces the year one revenue requirement by \$6,719 and reduces the year two revenue requirement by \$17,200.

**Other Operating Revenues** – BHP has a joint ownership agreement with Rushmore Electric and its two members, Black Hills Electric Cooperative and Butte Electric Cooperative, for the co-owned portions of

---

<sup>1</sup> Please see BHP's response to Staff's Data Request 2-1 in Docket EL14-013.

the 69 kV sub-transmission system. According to this agreement, each party has the right to own its load ratio share of jointly owned facilities. Since the Cooperatives are underinvested in the system, Rushmore Electric Power Cooperative, on behalf of itself and its members, pays BHP a monthly fee to ensure that customers of all parties are fairly and accurately responsible for their use of the jointly owned facilities.

During discovery and after further review by the Company, it was determined that these revenues were calculated incorrectly on Schedule 5-10. The revised Schedule 5-10 includes an additional month of revenue for the three projects, as BHP receives fees the month the projects are placed in service. This change reduces the year one revenue requirement by \$12,460. The year two revenue received will be reflected in the 2016 TFA true-up filing.

The net effect of these changes is a decrease of the year one revenue requirement by \$19,179 to \$297,256 and a decrease of the year two revenue requirement by \$17,200 to \$336,098. The revised TFA rates per kWh for the respective customer classes to be effective June 1, 2015 are:

Residential	\$0.00010
Small General Service	\$0.00014
Large General Service and Industrial	\$0.00009
Lighting Service	\$0.00019

#### **OTHER ISSUES**

**Annual Report of South Dakota Jurisdictional Earnings** – The Amended Settlement in docket EL14-013 revises the annual filing date for the jurisdictional earnings report from April 15<sup>th</sup> to February 15<sup>th</sup> to correspond with the EIA and TFA filing dates. The Company and Staff believe this change makes sense and is more efficient, as it will allow Staff adequate time to review the information provided in the report during its review of annual EIA and TFA filings. As in the past, this earnings report requirement will exist only as long as the Company is receiving revenue from the TFA. The Company is not required to submit the report if BHP has (a) filed a general rate case within 12 months of the report due date or (b) adjusted rates as a result of a general rate case within 12 months of the report due date.

#### **RECOMMENDATION**

Staff recommends the Commission approve the Transmission Facilities Adjustment for the reasons stated above.