

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

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| <b>APPLICATION OF BLACK HILLS POWER,<br/>INC. d/b/a BLACK HILLS ENERGY FOR<br/>APPROVAL OF ITS 2017 ENVIRONMENTAL<br/>IMPROVEMENT ADJUSTMENT</b> | ) | <b>SETTLEMENT STIPULATION</b> |
|  | ) |                               |
|  | ) | <b>EL17-008</b>               |
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| <b>APPLICATION OF BLACK HILLS POWER,<br/>INC. d/b/a BLACK HILLS ENERGY FOR<br/>APPROVAL OF ITS 2017 TRANSMISSION<br/>FACILITY ADJUSTMENT</b>     | ) | <b>EL17-006</b>               |
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|  | ) |                               |

It is hereby stipulated and agreed by and among Black Hills Power, Inc. d/b/a Black Hills Energy (“Applicant” or “Black Hills Power” or “Company”) 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 matters. In support of Black Hills Power’s Applications in the above-captioned dockets (“Applications”), the Parties do hereby offer this Stipulation, the Applications, along with supporting materials filed February 15, 2017, 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 February 15, 2017, Black Hills Power filed with the Commission the aforementioned Applications through which the company proposed changes in its cost of service related to its Transmission Facility Adjustment (“TFA”) and its Environmental Improvement Adjustment (“EIA”).



On February 16, 2017, the Commission electronically transmitted notice of the filing and the intervention deadline of March 3, 2017 on the Commission's PUC Weekly Filings electronic listserv. No petitions to intervene were filed.

On March 29, 2017, the Commission entered an order suspending the proposed EIA and TFA rate schedules for a period not to exceed 180 days, pursuant to SDCL 49-34A-14.

The Parties have been able to resolve all issues in these proceedings 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 Applications.

## **II. PURPOSE**

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving the issues between them in Dockets No. EL17-006 and EL17-008. 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) 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 these dockets.



**III. ELEMENTS OF THE SETTLEMENT STIPULATION**

1. EIA and TFA Revenue Requirements, Rates, and Refund Plan

The Parties agree that the existing revenue requirements under both the EIA and TFA shall be discontinued, effective May 31, 2017. Current effective rates will continue to be charged until the first day of the month following the month in which this Stipulation is approved by the Commission, which will result in an over-collection in the balancing account of the EIA. Any over-collection will be refunded by the Company through Refund Rates (the “Refund Rate(s)”) over a period of six (6) months. Based upon the expected over-collection in the EIA balancing account, the EIA refund rates shall be:

|                                      |                     |
|--------------------------------------|---------------------|
| Residential                          | \$(0.00011) per kWh |
| Small General Service                | \$(0.00011) per kWh |
| Large General Service and Industrial | \$(0.00009) per kWh |
| Lighting Service                     | \$(0.00000) per kWh |

The TFA is forecasted to be under-collected as of July 1, 2017. The Company will forgo collection of the TFA under-collection balance and the TFA Rates shall be:

|                                      |                     |
|--------------------------------------|---------------------|
| Residential                          | \$(0.00000) per kWh |
| Small General Service                | \$(0.00000) per kWh |
| Large General Service and Industrial | \$(0.00000) per kWh |
| Lighting Service                     | \$(0.00000) per kWh |

Notwithstanding the six-month refund period, the Company will track the balance in the EIA each month and once the entire balance has been refunded to customers, the Company will discontinue the Refund Rates. The Parties agree to request that the Commission approve the EIA Refund Rates as part of its approval of this Stipulation. Because the TFA is forecasted to be under-collected as of July 1, 2017, the parties agree to request that the Commission set the TFA rates to zero as part of its approval of this Stipulation. In addition, the Parties agree to request that the Commission approve the resetting of the EIA Refund Rates to zero, once the



entire balance has been refunded, as part of its approval of this Stipulation. The Company will track the balance in the EIA balancing account each month, and once the balancing account has been fully refunded to customers, the Company will submit a compliance filing in order to inform the Commission that the Refund Rates have been discontinued and the EIA balancing account has been fully refunded to customers. In the event the TFA balancing account has an over-collection in lieu of the forecasted under-collection, the Company will return the over-collection to customers through refund rates in a similar manner as the EIA over-collection.

2. Tariffs

The Parties agree to revised tariffs attached as Exhibit 1 to this Stipulation for presentation to the Commission for the purposes of setting the Refund Rates discussed in the preceding paragraph. The Parties agree that the Company shall file compliance tariffs with the Commission setting the EIA Refund Rates to zero and with updated effective date, once the remaining balance in the EIA balancing account is fully refunded.

3. Vegetation Management Regulatory Asset (“VMRA”) Balance

The Parties agree that the VMRA balance shall be amortized over a six-year period beginning July 1, 2017. Staff agrees to support the Company’s request in Docket EL17-021 that the Commission issue an order approving the vegetation management costs incurred from November 2015 through March 2017, and the VMRA balance as of March 31, 2017, as filed in the Company’s application in Docket EL17-021. The Company agrees not to seek an increase in rates for recovery of the VMRA balance during the Moratorium Period. Staff reserves all rights to review the VMRA for prudence and reasonableness (including, but not limited to, project and cost management, accounting data and methods, and the resulting balance in the regulatory asset) in any future proceeding related to the recovery of VMRA in rates.



4. Other Regulatory Asset Amortization

The Parties agree that amortization of the existing regulatory asset balances related to rate case expenses not part of authorized rate case expense in Docket EL14-026 (only rate case expenses incurred after settlement of Docket EL14-026), decommissioning and Winter Storm Atlas will be accelerated so that the balances will be fully amortized over a six-year period beginning July 1, 2017. The Company agrees not to seek an increase in rates related to these balances during the Moratorium Period. 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:

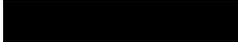
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5. Power Marketing Margin Guarantee

The Company agrees to increase its existing annual \$1M power marketing margin guarantee by an additional \$1M (bringing the total power marketing margin guarantee to \$2M) for a six-year period beginning on April 1, 2017 and ending on March 31, 2023.

6. Vegetation Management Activities and Reporting

The Company shall continue its present practice of completing vegetation management maintenance for its distribution system rights-of-way on a four to five-year cycle during the



Moratorium Period. The Company shall annually file a vegetation management report as a non-docketed item during the Moratorium Period, reporting on the Company's vegetation management activities. The report shall be filed on or before May 1st of each year, and shall include detailed information regarding: i) line miles and circuits maintained during the reporting year, with a map illustrating the circuits cumulatively completed in each reporting year; and ii) actual costs and expenditures related to distribution ROW maintenance during reporting year. The report filed in May of 2018 shall report on vegetation management activities from April 1, 2017 through March 31, 2018. Subsequent reports shall report on vegetation management activities for the preceding calendar year.

7. Jurisdictional Earnings Reporting

On or before May 1<sup>st</sup> of each year during the Moratorium Period, the Company will prepare a normalized jurisdictional earnings report, which shall report on the Company's South Dakota normalized jurisdictional earnings for the preceding calendar year. The reports will be filed confidentially as compliance filings in Docket EL17-006. Staff agrees that it will not oppose the Company's designation of the reports as confidential.

a) The report will utilize FERC accounts where possible, and will be prepared to include the following parameters:

- i) Weather normalization based on the Company's internal weather normalization calculation for the months of June, July, and August;
- ii) Pension costs shall be normalized over a five-year period. The five-year average pension cost normalization calculation shall use 2016 actual costs of \$1,511,449 for all years prior to 2016 that are included in the five-year average calculation. The calculation shall utilize actual costs for all other years

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included in the calculation (for the purposes of this Stipulation the forecasted costs for the year the report is submitted are known with sufficient certainty to be considered as “actual” costs). For clarity, and by way of example, for the 2017 annual report that is due May 1, 2018, the pension expense five-year historical average amount shall be calculated using the actual amounts for 2016, 2017, and 2018. The 2018 amount is known with reasonable certainty in January 2018 and can be used in the calculation submitted by May 2018. For the 2017 annual report, there will be two years prior to 2016 that will utilize 2016 actual costs for the pension normalization calculation. For the 2018 annual report, there will be one year prior to 2016 that will utilize 2016 actual costs;

iii) Bad Debts normalized based on a historical five-year average, consistent with the 2014 rate case;

iv) Normalizing adjustments may occur for one-time events exceeding \$500,000 (whether positive or negative);

v) Jurisdiction allocators will be updated annually to reflect known and demonstrable changes in allocations (Common Use System may be based upon estimates with known changes);

vi) The Company’s portion of power marketing margins will be excluded;

vii) To the extent the Company credits the ECA in circumstances where the additional \$1M power marketing margin guarantee referenced in paragraph 5, above, is not met, such credit will be reflected as an expense, thereby reducing the Company’s earnings for the reported year. For clarity, credits to the

[REDACTED]

ECA related to the \$1M power marketing margin guarantee that existed prior to the parties entering into this stipulation will not be reflected as an expense, and will not reduce the Company's reported earnings for the reported year; and

viii) The amortization of the VMRA balance (and other regulatory asset amortization provisions of the stipulation) will be reflected as an expense against the Company's earnings in each annual report.

b) BHP's first annual jurisdictional earnings report shall be completed no later than May 1, 2018, reporting on normalized earnings for calendar year 2017.

#### 8. Capital Projects

The Company has evaluated its present long-term capital spending plan and identified projects presently planned for the 2020-21 timeframe that may be prudently accelerated so that the project would be placed in service prior to December 31, 2019. For purposes of this commitment, the Company agrees to increase capital spending by no less than \$10M over and above the spending included in its present long-term capital spending plan of [REDACTED]

[REDACTED] In order to be included as satisfying the Company's \$10M commitment, the increased spending must provide a direct benefit to South Dakota retail customers. For clarity, any capital contribution from or allocation to partnering electric cooperatives shall be deducted from the total project costs in determining whether the \$10M commitment is met.

Projects currently identified for potential acceleration are set forth below as bulleted items. The list of potential projects may be modified in the future through further discussions and agreement with staff. In addition, the parties agree that the requirement to complete any of listed projects, or accelerate projects, shall be waived to the extent the company prudently adds a



company-owned generation project of 10MW or greater to its resource mix prior to December 31, 2019.



- 69KV Line Projects:



- New Distribution Substations:



- Distribution Substation Transformer Projects:



9. CPGS Phase-in Rider

During construction of the Cheyenne Prairie Generating Station (CPGS) the Company received approval to recover CPGS construction financing costs from South Dakota customers in Docket EL12-062. A reconciliation of the actual final construction costs to the financing costs recovered from customers is currently being prepared for the Wyoming Public Service Commission in Wyoming Docket No. 20002-84-ET-12 (Record No. 13336). A refund to customers is currently expected to result from this effort. When the Wyoming proceeding is completed, the Company will file a docket with the Commission to propose a refund of any over-collection that may have occurred related to the recovery of CPGS financing costs from South Dakota customers.

[REDACTED]

10. Commission Filing Fee

The assessed Commission filing fees in Dockets EL17-006 and EL17-008 will not be requested for recovery in any future rate applications.

11. Moratorium Period

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 July 1, 2023; absent an Extraordinary Event (the “Moratorium Period”). The Parties agree that the Moratorium Period will apply to the EIA, TFA, and phase in rate plans pursuant to South Dakota Codified Law 49-34A-73. The Parties agree that this rate moratorium does not apply to the Energy Cost Adjustments and the Energy Efficiency Solutions Adjustment. The moratorium agreed to hereunder shall remain in full force and effect unless and until the Commission enters a final non-appealable order declaring that the Company is entitled to relief from the moratorium as a result of an Extraordinary Event. The Company shall have the burden of proof in any proceeding to establish that it is entitled to relief from the moratorium due to an Extraordinary Event, and Staff fully retains all rights to challenge any evidence presented by the Company through audit, discovery, cross examination, presentation of independent evidence, and/or legal argument. Notwithstanding anything in this agreement to the contrary, an Extraordinary Event shall be deemed to have occurred to the extent the Commission enters an Order to show cause regarding the reasonableness of Company’s rates.

B. As used in this Stipulation an “Extraordinary Event” is an event beyond the control of the Company that has a significant and material impact on the Company’s operations and/or financial condition. Examples of such events may include, but are limited to, failure of facilities, flood, earthquake, storm, or other severe weather conditions, fire, explosion, epidemic, war, riot,



civil disturbance, labor disturbance, sabotage, terrorist act, loss of a major customer or customer load, or actions taken by a government authority (including, but not limited to, changes in tax laws or environmental laws/regulations). The Parties acknowledge and agree that the definition of an “Extraordinary Event” in any prior agreement between the Parties was premised on an explicit understanding that such definition created no precedential value whatsoever outside of the specific proceeding to which it related. As such the Parties agree that any prior definition of the term has no bearing upon the determination of what may or may not be considered a “significant and material impact” with respect to this stipulation in any future proceeding to determine whether an Extraordinary Event exists.

This Stipulation is entered into effective this 9th day of June, 2017.

BLACK HILLS POWER, INC.

SOUTH DAKOTA PUBLIC UTILITIES  
COMMISSION STAFF

By:   
Name: Marne Jones  
Its: Vice President - Regulatory

By:   
Name: Kristen Edwards  
Its: Staff Attorney