

**BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

**APPLICATION OF BLACK HILLS POWER )**  
**INC. d/b/a BLACK HILLS ENERGY FOR )**  
**APPROVAL OF ITS TAX CUT AND JOBS ) Docket No. EL18-029**  
**ACT PROPOSAL )**

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**BLACK HILLS POWER INC. d/b/a BLACK HILLS ENERGY’S PROPOSAL FOR A  
SECOND ONE-TIME BILL CREDIT TO TRUE-UP ITS 2018 TAX CUTS AND JOBS  
ACT CUSTOMER BENEFIT**

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Black Hills Power, Inc. d/b/a Black Hills Energy (“Black Hills” or the “Company”), a South Dakota Corporation, respectfully requests approval from the South Dakota Public Utilities Commission (the “Commission”) to administer a second one-time credit to true-up its 2018 Tax Cut and Jobs Act (the “Act” or “TCJA”) customer benefit.

**SUMMARY OF THE ACT**

The Act was signed into law December 22, 2017. Key provisions within the Act that impact Black Hills’ operations are the reduction in the Federal Income Tax Rate (the “FIT Rate”) from 35 percent to 21 percent, effective January 1, 2018, and the normalization provisions that govern the Excess Deferred Federal Income Taxes (“EDFIT”) that result from the change in the FIT Rate.

**BACKGROUND**

On December 21, 2017, the South Dakota Public Utilities Commission (the “Commission”) received a filing from Commission Staff requesting a docket be opened to investigate the effect of the Act on South Dakota utilities. On December 29, 2017, the Commission considered the matter and ordered Black Hills to file initial comments regarding the

general effects of the Act on the utility's cost of service in South Dakota by February 1, 2018.<sup>1</sup> The December 29, 2017 Commission Order required that the Company's specific proposal address the determination of the TCJA on all elements of Black Hills' cost of service, include an explanation of the effects of the Act on Black Hills' cost of service, and propose changes to the Company's rates to reflect the impacts. On June 29, 2018 Black Hills filed with the Commission its Application setting forth Black Hills' proposal related to the TCJA. Following the Application, Black Hills and Commission Staff engaged in discussions of the elements of the proposal. Black Hills and Commission Staff resolved all issues and entered into a Settlement Stipulation (the "Stipulation"), which was approved on September 4, 2018 by the Commission. The Stipulation contained a one-time October 2018 bill credit for 2018 TCJA customer benefits, a January 1, 2019 Rate Change,<sup>2</sup> and a revision to base rate customer charge.<sup>3</sup>

#### **SUMMARY OF THE COMPANY'S OCTOBER 2018 ONE-TIME BILL CREDIT**

In accordance with the Stipulation, Black Hills successfully administered its one-time October 2018 bill credit and credited customers \$7,614,310 of the \$7,671,339 stipulated amount. The remaining balance of \$57,029 can be attributed to customers that have left the system. The October 2018 one-time credit was allocated to each customer class based on each class' share of base revenue requirement established in Docket No. EL14-026. Each individual customer credit was calculated on customer usage from August 1, 2017 through July 31, 2018.

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<sup>1</sup> On February 1, 2018, Black Hills complied with the Commission Order and filed its initial comments.

<sup>2</sup> January 1, 2019 Rate Change was approved by the Commission on December 28, 2018.

<sup>3</sup> Revision to Base Rate Customer Charge was approved by the Commission on December 28, 2018.

## REASON FOR TRUE-UP OF 2018 TCJA CUSTOMER BENEFIT

At the time Black Hills entered into the Stipulation, 2018 TCJA benefits were estimated based upon its 2017 Federal Tax Return. Based upon the 2017 Federal Tax Return, Black Hills estimated 2018 TCJA benefits to be:

Tax Expense Reduction	\$7,671,339
2018 Protected Excess Deferred Income Tax	\$1,300,000
2018 Non-Protected Excess Deferred Income Tax	(\$1,300,000)
Estimated 2018 TCJA Customer Benefit	\$7,671,339

Black Hills has since completed its 2018 Federal Tax Return and the estimates provided at the time of the Stipulation have changed. As of December 31, 2017, Black Hills' depreciation system was not configured to calculate complex methods of depreciation for Excess Deferred Income Tax. Black Hills worked with the best available information and an outside consultant to provide the Commission with an estimated 2018 Excess Deferred Income Tax amount. The estimate provided for \$1.3 million of Protected Excess Deferred Income Tax and an equal offset for Non-Protected Excess Deferred Income Tax. This estimate was based on the best available 2018 book depreciation and presumed protected and non-protected categories. After the estimate was provided, Black Hills completed its detailed analysis, which included updated industry guidance and further normalization considerations, of protected and non-protected categories. The conclusion required moving nearly all of the previously classified Non-Protected Excess

Deferred Income Tax to Protected Excess Deferred Income Tax. Based upon the detailed analysis customer 2018 TCJA benefit should have been:

Tax Expense Reduction	\$7,671,339
2018 Protected Excess Deferred Income Tax	\$849,631
Total 2018 TCJA Customer Benefit	\$8,520,970

Based upon this new information, Black Hills proposes to administer a second refund of \$906,660 (\$849,631 2018 Protected Excess Deferred Income Tax + \$57,029 October 2018 remaining balance). To remain consistent and balanced between customers for 2018 TCJA benefits, Black Hills proposes to run an additional on-time bill credit for customer’s February 2019 billings using the same methodology stipulated for the October 2018 credit – allocation to each customer class based upon each class’ share of base revenue requirement established in Docket No. EL14-026. Each customer will be allocated their appropriate one-time credit based upon their usage from August 1, 2017 through July 31, 2018. Attachment 1 to the Application contains the allocation of the \$849,631 to each customer class.

**COMPANY CONTACTS**

The Company will be represented in this proceeding by the following persons. Correspondence regarding this proceeding should be directed to the following:

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**CONCLUSION**

Black Hills respectfully requests that the Commission issue an order approving its proposal for a second one-time February 2019 bill credit to true-up its 2018 Tax Cut and Jobs Act customer benefits.

**RESPECTFULLY SUBMITTED** this 14th day of January 2019.

By:   
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Jason S. Keil  
Manager - Regulatory

