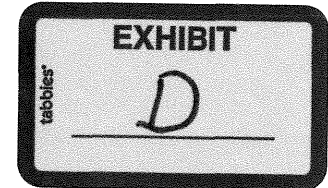


Energy of Utah, LLC
Ros Vrba, President
2114 Pinnacle Terrace Way #104
Cottonwood Heights, UT 84121

May 18, 2018



Black Hills Corporation
Attn: Chris Kilpatrick
PO Box 1400
Rapid City, SD 57702-0385P
Phone: 605.721.2748

RE: Black Hills Energy Avoided Cost Pricing for the Fall River Solar LLC 80 megawatt ("MW") Solar Facility located in Fall River County, South Dakota

Dear Mr. Kilpatrick:

I reviewed the avoided cost calculations and materials you provided to me on April 30, 2018 for the referenced solar QF project with my attorney, William Taylor, and technical consultant, Mark Klein. I provide the following comments and observations regarding your calculation of the avoided cost price for the Fall River Solar project at a 20-year levelized price of \$17.02 per MWh.

Observations:

- 1) The avoided cost methodology used by Black Hills Energy has changed since your calculation of the avoided costs for two 20 MW solar projects, SD1 at \$44.54 per MWh and SD2 at \$41.69 per MWh, only 11-18 months ago. Your new methodology is based on a single decision made by the South Dakota Public Utilities Commission in EL16-021 related to Juhl Energy's June 23, 2016, complaint against NorthWestern Energy in the calculation of the avoided cost for three 20 MW wind projects. These wind projects are in the Southwest Power Pool (SPP) footprint of South Dakota. The SPP is a non-profit Regional Transmission Organization approved by the FERC.
- 2) SPP provides both day-ahead and real-time electricity market transparency to utilities, generators and load serving entities through its Integrated Marketplace. The SPP Integrated Marketplace provides:
 - a. A Day-Ahead Market with Transmission Congestion Rights (TCRs)
 - b. A Reliability Unit Commitment process
 - c. A Real-Time Balancing Market
 - d. Incorporation of a price-based Operating Reserve Market.
 - e. A single SPP Balancing Authority
- 3) The Fall River Solar project interconnected to Black Hills Energy's transmission system in southwest South Dakota is in the Western Electricity Coordinating Council (WECC). There is no liquid or transparent day-ahead or real-time energy and ancillary service market in the portion of the WECC in which Black Hills Energy operates. There is no independent entity like the SPP that administers the overall operation of the wholesale market and ensures that non-utility owned generators are treated equally and on a non-discriminatory basis with generation and supply resources owned and operated by the regulated incumbent utility.
- 4) Based on a single decision by the South Dakota Public Utilities Commission (SDPUC) in the Juhl Energy complaint, Black Hills Energy has elected to use avoided cost methodology that is not SDPUC approved in application by Black Hills Energy and is certainly not applicable to the wholesale market in WECC in which Black Hills Energy operates. Specifically, the hours in which the utility has adequate resources to generate electricity to serve load, and due to operational or

contractual constraints Black Hills Energy in the avoided cost calculation for Fall River Solar has assigned an avoided cost of zero (\$0 per MWh) which is biased and discriminatory towards Fall River Solar as compared to how Black Hills Energy treats its own generation and supply resources.

- 5) In the calculation of the avoided cost for Fall River Solar, Black Hills Energy identifies the 20 MW SD1 solar project, the 20 MW SD2 solar project and a yet to be identified 12 MW solar project in its resource stack. The SD1 and SD2 projects were initially 20-year QF PURPA contracts approved by the SDPUC in 2016 and 2017 respectively. Black Hills Energy has recently purchased these projects and presumably is able to justify the acquisition cost along with the yet to be identified 12 MW solar project apparently using a different methodology than was used for the Fall River Solar avoided cost pricing exercise.

I am providing Black Hills Energy with an opportunity to calculate the avoided cost for Fall River Solar using consistent methodology that was used in the derivation of the avoided cost calculations for SD1 and SD2 in 2016-2017. Alternatively, Black Hills Energy can provide a 20-year levelized avoided cost price for Fall River Solar using the average of the acquisition costs for SD1, SD2 and the yet to be identified 12 MW solar project and annuitizing the average acquisition cost over 20 years based on Black Hills Energy's weighted average cost of capital.

I will wait until May 24, 2018, for an affirmative response to my request above and delivery of the revised avoided cost price for Fall River Solar no later than May 31, 2018. If Black Hills Energy disagrees with my position I will direct my South Dakota counsel, William Taylor to file a formal complaint with the SDPUC by June 1, 2018 using all available information submitted to us or in public domain.

Regards,

Ros Vrba

Ros Rocco Vrba

CC: William Taylor

Mark Klein