

**BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF BLACK HILLS )**  
**POWER, INC. d/b/a BLACK HILLS )**  
**ENERGY PETITION FOR APPROVAL OF ) Docket EL19-**  
**DEFERRED ACCOUNTING TREATMENT )**  
**FOR SD SUN PROJECT TRANSACTION )**  
**AND DEVELOPMENT COSTS )**

**PETITION OF BLACK HILLS POWER, INC. d/b/a BLACK HILLS ENERGY**

**I. INTRODUCTION**

Black Hills Power, Inc. d/b/a Black Hills Energy (“Black Hills Power” or the “Company”), respectfully submits this Petition to the South Dakota Public Utilities Commission (the “Commission”), requesting approval to utilize deferred accounting and establish a regulatory asset related to the acquisition of development rights for certain solar photovoltaic energy projects, pursuant to *SDCL* § 49-34A-7 and *ARSD* § 20:10:13:48. If approved by the Commission, Black Hills Power will defer recognition of transaction and development costs, and will fully amortize the costs over a period of time beginning on September 1, 2019, through December 31, 2022. Black Hills Power will not seek an increase in customer rates as a result of the accounting treatment requested herein.

**II. OVERVIEW**

In March of 2018, Black Hills Power acquired all of the ownership interests in three limited liability companies (the “SD Sun Project Companies”), which at the time were the owners of three solar photovoltaic energy projects being developed as Qualifying Facility (“QF”) projects under the Public Utility Regulatory Policy Act of 1978 (“PURPA”). The QF projects, collectively referred to herein as the “SD Sun Projects” or “the Projects”, involved a total of 52 MWs of generating capacity, split between two 20 MW projects, and a third 12 MW project. The SD Sun Projects were in various stages of development at the time of the acquisition, with

Black Hills Power obligated to purchase all of the eventual output from the Projects, consistent with PURPA's provisions.<sup>1</sup> The first 20 MWs would have come on-line in 2018, with the remaining 32 MWs being completed in 2019. The weighted average cost of power purchases from the projects, once all 52 MWs came on line, would have been \$41.80/MWh.<sup>2</sup> Based upon the commercial operation dates for the three phases and considering the SD Sun Project's projected energy production, Black Hills Power estimated that approximately \$500,000 would be included in customer costs for fuel and purchased power in 2018. Approximately \$2,500,000 would be included as fuel and purchased power costs in 2019, with this amount increasing to just over \$4,700,000 for each of the years 2020 through 2022.<sup>3</sup> These fuel and purchased power costs would be included in customer rates through the Fuel and Purchased Power Adjustment ("FPPA"), which applies to all rate schedules for all classes of service. Similar costs would continue to be passed on to customers through the FPPA throughout the term of the SD Sun power purchase agreements, the last of which would have expired in 2039.

Given the level of costs for fuel and purchased power that would be passed along to customers through the FPPA and the Company's desire to add a company-owned renewable generation project to its existing resource mix, Black Hills Power began to consider purchasing the development rights for the SD Sun Projects from 174 Power Global. Ultimately, Black Hills Power and 174 Power Global mutually agreed to a buy-out, for a total purchase price of \$5,500,000. The purchase and sale relieved Black Hills Power of the obligation to purchase the energy output from the Projects. The effect of the purchase for customers, therefore, was an avoidance of approximately \$4,700,000 in annual costs for fuel and purchased power that would have begun in the near term, and continued well into the future. For Black Hills Power, the

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<sup>1</sup> At the time of the acquisition, Black Hills Power had executed power purchase agreements for 40 MWs from the first two projects, commonly referenced as SD Sun I and SD Sun II. Though a power purchase agreement had not been reached with regard to the third 12 MW project ("SD Sun III"), an avoided cost had been generated and provided to the Project owner (174 Power Global).

<sup>2</sup> The avoided cost calculations for the SD Sun Projects were accomplished before the Commission decision in the *Consolidated Edison* case. Since that time, Black Hills Power has revised its methodology to be consistent with the Commission decision in the *Consolidated Edison* case.

<sup>3</sup> Beginning in 2023, slightly under \$4,700,000 of annual costs for fuel and purchased power costs would result from purchases from the Projects, with the decrease being the result of degradation in production that is typically experienced with solar photovoltaic facilities.

purchase of the SD Sun Project Companies allowed it the opportunity to evaluate the possibility of developing the Projects as utility-owned assets. Black Hills Power did evaluate various options for developing the SD Sun Projects, or a portion of the Projects, as a utility-owned resource, but determined that it was not economically feasible to do so, when compared to the low cost of energy provided by Black Hills Power's current resource mix.

Through this Petition, Black Hills Power requests that the Commission approve deferred accounting treatment of the transaction and development costs related to its acquisition of SD Sun Project Companies. Black Hills Power proposes to begin amortization of the costs on September 1, 2019 and have them fully amortized by December 31, 2022. The total amount of costs to be included are \$5,416,773, which consists of the purchase price discussed above, plus transaction and development related costs, less the forfeit of a transmission deposit that the SD Sun Project Companies had paid to Black Hills Power in developing the Projects prior to the acquisition. Black Hills Power agrees that it will not to seek an increase in rates related to any of the project acquisition fees.

### **III. EXHIBITS**

Exhibit 1 – Project Transaction and Development Costs

Exhibit 2 – Amortization Schedule

### **IV. PROPOSED DEFERRAL AND AMORTIZATION ACCOUNTING METHOD**

Black Hills Power requests that the Commission approve deferred accounting treatment of \$5,416,773 in purchase price, transaction and development costs related to the acquisition of the SD Sun Project Companies. Black Hills Power proposes to begin amortization of these costs on September 1, 2019 and have them fully amortized by December 31, 2022. Black Hills Power will not to seek an increase in rates related to any of the project transaction and development costs.

### **V. COMPANY REPRESENTATIVES**

Copies of all notices, other correspondence and all inquiries concerning this Petition should be sent to:

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**VI. VERIFICATION**

Attached is the Verification signed by Jason S. Keil, who is authorized to act on behalf of Black Hills Power, Inc. d/b/a Black Hills Energy, affirming that the contents of the Petition are true, accurate and correct to the best of his understanding, knowledge and belief.

**VII. CONCLUSION**

Black Hills Power is committed to making customer focused investments and with the acquisition of the SD Sun Project Companies, Black Hills Power customers will not be burdened with the high cost energy the SD Sun Projects would have delivered. Based on the Petition and supporting exhibits, Black Hills Power respectfully requests that the Commission:

1. Issue an order approving deferred accounting treatment of the SD Sun Project transaction and development costs; and
2. Approve Black Hills Power’s proposal to begin amortization of the \$5,416,773 transaction and development costs as of September 1, 2019.

Dated: July 31, 2019

**Black Hills Power, Inc. d/b/a Black Hills Energy**

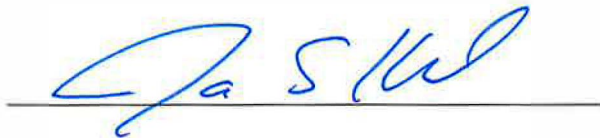
**BEFORE THE SOUTH DAKOTA PUBLIC UTILITY COMMISSION**

**STATE OF SOUTH DAKOTA    )**

**SS:**

**COUNTY OF PENNINGTON    )**

I, Jason S. Keil, being duly sworn, do hereby depose and say that I am Manager – Regulatory & Finance for Black Hills Power, Inc. d/b/a Black Hills Energy, that I have read such Petition, and that the facts set forth therein are true and correct to the best of my knowledge, information and belief.



Jason S. Keil, Manager – Regulatory & Finance

Subscribed and sworn to before me this 31<sup>st</sup> day of July, 2019.



Notary Public

My Commission Expires: \_\_\_\_\_ **My Commission Expires June 22, 2023**