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December 17, 2010

Ms. Patty Van Gerpen
Executive Director
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

RE: RM09-002 In the Matter of the Adoption of Rules Regarding Renewable, Recycled and Conserved Energy.

Dear Ms. Van Gerpen:

Black Hills Power, Inc. has reviewed the revised draft rules issued by Staff on November 23, 2010. We reviewed these rules in terms of: (1) governing statute at SDCL § 49-34A-101 and § 49-34A-105, and (2) practices and reporting we believe should be expected for retail electric providers to meet the state's voluntary objective for renewable, recycled, and conserved energy sources. From that review, we offer the following comments:

20:10:38:01 Definitions.

In paragraph (8), which sets forth the definition of “Energy efficiency baseline energy use”, we offer an observation. Black Hills Power will rely on usage data from its billing system to estimate baseline energy use in the near term. In the longer term, the Company will have available more robust usage data, from advanced metering infrastructure (“AMI”), to estimate baseline energy use. The Company is installing AMI meters on all retail customer locations. As that data is collected and warehoused in a Meter Data Management Systems (“MDMS”) which will be available to the company in 2012, Black Hills Power will have increased customer usage data. However, because customer characteristics can change frequently for various reasons that are unknown to any utility company at the time of the change, Black Hills Power does not intend to track usage on a customer basis (with the possible exception of some large

industrial customers). Therefore, while Black Hills Power will have more data after the implementation of AMI for each customer, we feel that it is not effective to monitor savings on each customer that takes advantage of an energy efficiency measure. An example of the customer characteristic changes would be a customer that installs an eligible water heater and increases their water heater energy efficiency, but then purchases a hot tub or adds a roommate. Black Hills Power's 'energy efficiency baseline energy use' will be for its entire South Dakota system.

20:10:38:03 Measurement and verification of energy efficiency measures.

Black Hills Power finds that the measurement and verification ("M&V") requirements in this chapter are satisfactory so long as a utility's demand response or energy efficiency program approved by the commission does not mandate a measurement and verification process in addition to that set forth in this rule. When implementing these programs, cost vs. benefit needs to be considered. Repeating an evaluation of this nature would be a cost to the utility and its customers and should not be necessary.

The comments to 20:10:38:01 also apply to this Section.

20:10:38:05 Measured savings approaches.

In paragraph (1), Black Hills Power suggests that the words "**and monitoring**" be deleted from the draft rule. Metering by itself will measure both baseline and post-installation energy use. Therefore, monitoring of a metering function is not necessary nor is it a cost efficient use of utility personnel.

20:10:38:06 Measurement and verification of demand response measures.

As we explain in our comments for Chapter 20:10:38:03, Black Hills Power agrees with this rule language so long as it does not cause an M&V requirement to be repeated (once in accordance with the rule and once in accordance with the utility's approved demand response or energy efficiency plan).

20:10:38:07 Annual report requirements.

Black Hills finds the reporting requirements enumerated in this chapter to exceed the requirements in statute at SDCL § 49-34A-105. In particular, the words "**and system-wide**" as found in paragraphs (6), (7), (8) and (9) is not supported by statute. It will require each reporting utility to track and aggregate DSM data across multiple state jurisdictions. This is an administrative burden. It is not reasonable, nor is it relevant to South Dakota's voluntary objective. We suggest those words be deleted.

Black Hills Power offers the following comment on paragraph (4): We believe that this language may be interpreted to mean that it is appropriate to retire renewable energy credits to meet a renewable energy objective. We believe that this is not in the best interests of customers and do not intend to retire renewable energy credits to meet this objective as it is more beneficial to the Company and the customers to sell the credits on the open market.

In paragraph (5), Black Hills Power suggests that the words “**if known**” be inserted after words “name and location of the facility”. In most instances, the name and location of the facility producing the renewable energy credits (“RECs”) is known. However, a retail electric provider may purchase RECs from another utility, not from a REC registry, and the utility counter-party is providing the RECs from a “slice-of-system”. This means a percentage of all the renewable resources in their system portfolio. With “slice-of-system” transactions, the name and location of renewable producer(s) may not be reported. Therefore, inserting the words “if known” will accommodate the “slice-of-system” REC transactions. Inserting these words will cause paragraph (5) to parallel the “if known” language found in paragraph (3).

In paragraph (7), Black Hills Power suggests that the word ‘conserved’ be deleted and replaced with ‘deferred.’ With this change, this language reflects the definition of demand response included in the proposed rules as well as the result of demand response measures in general.

In paragraphs (8) and (9), Black Hills Power suggests that the words “**of capital**” be deleted from the draft rule. Capital is one type of expenditure on energy efficiency and demand response measures. There are other examples of amounts spent, such as administrative and general expenses. Without recognizing these other expenses, and reporting only capital investments, the annual report will be understated. We believe ratepayers should be informed of the full cost of the programs and that the language should be revised to reflect a broader reporting of costs.

In addition to the foregoing comments, Black Hills Power believes it would be appropriate to include a section providing for lost margin recovery in this new chapter. We suggest the following language:

Recovery of Costs; Lost Margin; Incentives. A proposed energy efficiency or demand response plan may include:

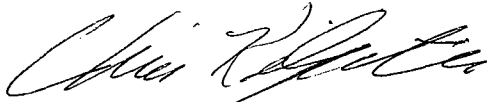
- (a) Recovery of the full costs of commission-approved demand response and/or energy efficiency programs and revenues lost by implementing these programs;
- (b) A mechanism for the utility to obtain incentives designed to provide financial rewards to the utility for implementing cost-effective demand response or energy efficiency programs; or
- (c) Both of the actions specified in subsections (a) and (b) above.

The commission shall review these mechanisms as part of a proceeding for approval of new rate schedules or in a separate proceeding limited to a review of demand response or energy efficiency programs.

Black Hills Power appreciates the opportunity to comment on the revised draft rule language.

Sincerely,

BLACK HILLS POWER, INC.

A handwritten signature in black ink, appearing to read "Chris Kilpatrick". The signature is fluid and cursive, with a prominent loop at the end.

Chris Kilpatrick
Director of Rates – Electric Regulation