



Steve Kolbeck, Chair
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SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

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May 4, 2011

James Winkler
[REDACTED]
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Dear Mr. Winkler:

This is in response to your May 2 letter regarding the Black Hills power docket EL11-001. This docket was opened as a result of a petition of Black Hills Power, Inc. to establish an environmental measures cost recovery tariff. The company also recently filed an application for approval of energy efficiency programs, tariffs and cost recovery mechanism, docket EL11-002. Both dockets deal with electricity provided by Black Hills Power, Inc.

You refer to the Purchased Gas Adjustment and the Conservation Program Tracking Mechanism for natural gas items previously approved by the commission. Here is some background which may be helpful on these issues.

PGA is the cost of the natural gas commodity used by a customer. This charge is a pass-through of the cost a natural gas provider pays for the natural gas commodity. A company is not allowed to mark up or earn a profit on this cost. According to state law (SDCL 49-34A-25), a utility is allowed to increase or decrease this rate each month without the Public Utilities Commission performing a comprehensive review of all of the company's costs. The latter is a time-consuming and expensive procedure for the company, commission, and consumers.

CTA is the cost of implementing conservation programs. For MDU's Black Hills territory, these programs include rebate incentives for high efficiency furnaces, water heaters, programmable thermostats and insulation. Besides advertising the availability of those rebates, the company also carries out an educational campaign. These programs are meant to benefit all customers by reducing the future cost of service. This cost has been placed as a separate line item on your bill for two reasons. First, the Commission views this as a pilot program and did not feel comfortable approving it under the same possible time interval that can occur between rate cases. These programs and their costs are reviewed annually by the commission. Second, because the concept is new to this commission, we wanted to fully disclose where this money was going – to the conservation programs.

You also referenced taxes and fees associated with telephone rates. I agree there are many such costs associated with telephone service. Here is a link to an online brochure which identifies these taxes and fees and provides background on each of them:

<http://puc.sd.gov/commission/Publication/tterms.pdf> . As you will see, the commission is not directly involved or does not have authority over the majority of these fees. You will find the address for the Federal Communications Commission's Consumer and Governmental Affairs Bureau on this brochure and you may wish to contact that office to relay your concerns.

The EL11-001 docket deals with Black Hills Power's petition to establish a new tariff with an Environmental Improvement Adjustment. You can review all filings dealing with this docket via the commission's Web site: <http://www.puc.sd.gov>. Click on "Commission Actions" then "Electric Dockets" and "2011 Electric Dockets" and "EL11-001."

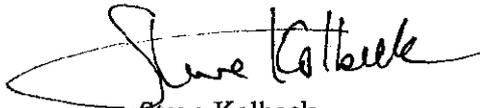
South Dakota's legislature passed Senate Bill 118 during its 2007 session. This allowed tariff mechanisms for automatic annual adjustment of jurisdictional costs of new environmental measures by a public utility for its electric facilities.

The PUC has been established by the South Dakota Legislature for the purpose of utility regulation, and its duty is to carry out the laws of the state as passed by the legislature. Therefore, the commission is obligated to uphold state law, including those laws and fees prescribed by statute. You can access the statutes governing the commission via our Web site by clicking on the "Statutes & Administrative Law" link on the home page.

I encourage you to check out the filings for the dockets referenced in your correspondence to learn about the regulation of the commission. You may also listen to Web casts of our meetings so you can follow along on the regulatory actions concerning the dockets you referenced. We strive to keep all of this information available to constituents so you can be aware of the regulation taking place and understand the background concerning the companies serving you and the laws that govern the companies and the commission.

Please feel free to write to any of the commissioners or staff with additional concerns or comments.

Sincerely,



Steve Kolbeck
Chairman