

February 7, 2015



Custer, SD 57730

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SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Public Utilities Commission

Capitol Building, 1st floor

500 E Capitol Avenue

Pierre, SD 57501

Dear Chairman Nelson:

The enclosed appeared in the Wall Street Journal this past week and thought I would send it along for the consideration of the Commission. I would be hopeful that the subject matter would be of interest as you give the recent request for a rate increase by Black Hills Power a full study. If the demand for power seems to be tied to the rate imposed, then it would appear to me to be senseless to permit a rate increase.

Sincerely:

Lester F. McClanahan

The Latest Threat To U.S. Power Grid

By REBECCA SMITH

The long-term future of the nation's electric grid is under threat from an unlikely source—energy-conserving Americans.

That is the fear of some utility experts who say that as Americans use less power, electric companies won't have the revenue needed to maintain sprawling networks of high-voltage lines and generating plants.

And if the companies raise rates too high to make up for declining sales volumes, customers will embrace even more energy-saving gizmos and solar panels, pushing down demand for grid power. The **Edison Electric Institute**, the trade group for investor-owned utilities, has warned that they could face a "death spiral."

"Utilities seem to have concrete shoes on," says Elisabeth Graffy, co-director of Arizona State University's Energy Policy, Law and Governance Center.

Since 2004, average residential electricity prices have jumped 39%, to 12.5 cents a kilowatt-hour and prices for all users have risen 36% to 10.42 cents, according to the U.S. Energy Information Administration. Retail sales to homes and businesses

still are less than they were in 2007, before the recession.

Even in parts of the country where the population has been growing, electricity sales have been anemic. **Southern Co.**, for example, said that in the third quarter of 2014, residential accounts grew 0.7% in its four-state region—but total home electricity sales contracted 0.6%.

Some people think talk of a death spiral is exaggerated. "It's indisputable that a lot is happening," says Ralph Izzo, chief executive of Public Service Enterprise Group, a big utility in Newark, N.J. But he doesn't believe, he says, "the industry will be turned upside down."

Moody's Investors Service agrees, contending regulators will work to keep utilities solvent because the grid is critical to the nation's standard of living. But some utilities are taking measures to counter the trend. Power companies in 20 states are trying to overhaul their rates so that they are less dependent on kilowatt-hour sales.

One of the most radical proposals surfaced recently in Wisconsin. Last May, **Madison Gas & Electric Co.**, a unit of **MGE Energy Inc.**, asked state utility reg-

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ulators to let it charge residential customers \$68 a month by 2017 as a fixed monthly fee for electricity service, covering 77% of the utility's fixed costs, versus the existing \$10.50 fee, which covered 12%. In return, the utility agreed to cut the price of electricity in half, to 7 cents a kilowatt-hour. The proposal created such uproar that the utility withdrew the request. Instead, it got approval to begin charging about \$20 a month, enough to cover 23% of its fixed costs, and to slightly reduce its electricity price.

Utilities like fixed fees but "they've not met with much success because customers dislike them," says Steve Kihm, chief economist for the Energy Center of Wisconsin, a nonprofit research institute. He says customers think these fees punish energy-conservers and lengthen payback periods for solar power and energy-efficiency upgrades.

David Owens, executive vice president at the Edison Electric Institute, says it costs most utilities \$40 to \$60 a month to serve a home. So customers who use little power shift costs to others.

Some utilities are embracing the possibility that customers

could leave the grid. Elizabeth Killinger, president of **NRG Retail**, a unit of **NRG Energy Inc.**, says the nation is entering the "era of personal power."

NRG is a big owner of conventional power plants that sell electricity to utilities. But Ms. Killinger is helping build a side business that sells energy products directly to consumers, including rooftop solar systems and portable devices that make or store electricity.

In August, the company

39%

Increase in average residential electricity prices since 2004

bought **Goal Zero**, a Utah energy-products company founded five years ago to take solar power to the world's poor. It sells small solar units that charge battery-powered devices and power small appliances. Small solar-powered battery chargers sell for as little as \$40 but solar generators cost up to \$1,800.

NRG also is tinkering with prototypes of stove-sized machines that make electricity from natural gas—something the company says is likely to appeal to the roughly 50% of U.S. homes served by gas. The company's goal is help customers unplug from the grid and become largely self-sufficient in a way not seen since the days of wood heat and candles.

"Our vision is puzzle pieces that fit together," Ms. Killinger says. "And even though it doesn't all exist today, we think it's years, not decades, away."

In Phoenix, **Arizona Public Service Co.** got the green light in December to compete directly with solar-power providers by offering rooftop solar systems to about 1,500 homes in a pilot project. Homeowners would rent their rooftops to the utility in exchange for \$30-a-month off their electric bills for 20 years.

But even as power production becomes more decentralized, there is value in the centralized electric system, says Tom Farrell, chief executive of **Dominion Resources Inc.** in Richmond, Va. To allow a \$1 trillion system to decay would be unconscionable, he says. "You can't run a country on solar panels."



Chris Nelson, Chairperson
Kristie Fiegen, Vice Chairperson
Gary Hanson, Commissioner

South Dakota

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February 9, 2015

Lester McClanahan

[REDACTED]
Custer, SD 57730

Dear Mr. McClanahan:

This is in response to your letter in today's mail regarding the Black Hills Power rate case increase request application currently open before the commission. You enclosed a Wall Street Journal clipping dealing with the future of the electric grid and consumer energy conservation.

When a utility files a rate request increase with the commission, the commission is obligated by law to thoroughly process the case. We are required to investigate and make a just and reasonable decision. This process can take almost a year to complete. Each commissioner, the commission's staff and expert consultants hired by staff will review the entire case – referred to as a docket – separately, along with any intervenors in the case. We request and review additional data and information including electricity sales projections from the utility before a decision is rendered.

My fellow commissioners and I pay close attention to any utility's offered justification as to a rate increase request, and you may wish to read the testimony filed by BHP with their application. You can find this online in the docket and the complete docket can be found at www.puc.sd.gov. Click on Commission Actions, Commission Dockets, Electric Dockets, 2014 Electric Dockets, and scroll down to EL14-026. I am enclosing a document titled Electric Rate Increase Requests Guide which may be helpful.

The cost of electricity is on the rise for you, me, and for other investor-owned, rural cooperative and municipal electric systems' customers throughout South Dakota and the U.S. South Dakota has six investor-owned electric utilities, and four have open rate case request dockets before the commission. The most-cited reason for these increased rates is new federal mandates, particularly those from the Environmental Protection Agency. EPA mandates were one of the four reasons cited by BHP in filing this rate increase request.

None of us wishes to see our rates increase including my fellow commissioners. However, the law requires the commission to allow utility rates that are proven reasonable and justifiable.

Thank you for contacting the commission. All discussion involving commissioners on the case must be available to the public. Therefore, your comments and my response will be filed in the docket.

Sincerely,

Chris Nelson

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