

From: PUC

Sent: Monday, May 05, 2014 3:22 PM

To: [REDACTED]

Subject: FW: BHC request for a rate increase

Ms. Jahr:

This is in response to your message regarding Black Hills Corporation's recent press release on earnings and the Bureau of Economic Analysis report on South Dakota income. You relay that these two items are sufficient reason for the commission to decline BHC's request for another rate increase.

Black Hills Power filed this rate increase with the commission on March 31, 2014. BHP is one entity owned by BHC's shareholders, along with several other entities. Since BHP is a public utility, federal and state laws govern how it must operate and how the commission must regulate it (However, the commission does not regulate BHC, the larger entity that owns BHP.). This is in contrast to most of the entities owned by BHC which have little if any government regulation to the degree that governs BHP. The laws include what is commonly known as "ring-fencing" which prevents an investor-owned utility of being stripped of its profits by shareholders. The purpose is to retain sufficient funds to operate the utility and reinvest in the system in order to provide safe, reliable service to the utility's customers. However, the BHC shareholders are entitled to earn some profit since that is why they invest their funds in BHC, which in turn owns BHP.

When a utility files a rate case with the commission, we are obligated by law to thoroughly process the case. This typically takes almost a year to complete. Several commission staff analysts and an attorney work on the case and may also tap expert consultants to help with specific aspects of the investigation. Meanwhile, each of us analyze the case with separate commission staff assistance, and any intervenors or other parties to the case conduct their own separate investigation. This process entails full review of all filings in the docket and requests for and review of additional data and back-up information from the utility. Here is a link to a document which helps explain the rate case process:

<http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

Since this is an open case, your comment and our response will be filed in the Comments and Responses section of this docket, EL14-026, and here is a link to the docket:

<http://www.puc.sd.gov/Dockets/Electric/2014/EL14-026.aspx>

None of us wishes to see increased costs for South Dakotans. Many struggle to earn sufficient income to cover expenses and another cost increase for any product or service is difficult to manage. However, as we hear and read about in the news on a daily basis, electricity costs are on the rise throughout the country. We are seeing them in South Dakota not only from investor-owned utilities, but also from rural cooperatives and municipal electric systems. New Environmental Protection Agency mandates are cited in almost every case as a primary factor in these increases. Despite this, South Dakota's electric rates have been and continue to be among the lowest in the country.

BHP gave four reasons for their filed rate case, according to documents in the docket online: 1. adding the Cheyenne Prairie Generation Station as a new energy resource; 2. adding investments to the utility system infrastructure; 3. covering costs for retiring three coal-fired facilities which are being closed as opposed to being retrofitted primarily due to new EPA mandates; and 4. recovering costs from storm Atlas.

Through the processing of this case, we will determine whether we agree that the costs BHP cites are just and reasonable for each category, and are within the boundaries of federal and state laws.

Thank you for writing to make us aware of your concerns. Given your interest in the case, we encourage you to follow along as it is processed by monitoring the docket online.

Sincerely,

Gary Hanson
Commissioner

Chris Nelson
Commissioner

Kristie Fiegen
Commissioner