

Black Hills Power

South Dakota Interim Rates Overview

On April 1, 2010 Black Hills Power plans to implement interim rates for South Dakota customers

- On September 30, 2009, Black Hills Power requested the South Dakota Public Utilities Commission's approval to increase its electricity rates by \$32 million, or approximately 26.6 percent.
 - 60-65 percent of the filing seeks recovery over the next 45 years for Black Hills Power's investments associated with the Wygen III power plant.
 - 10-15 percent seeks recovery for infrastructure investments in other generation, transmission and distribution assets necessary to meet rising customer demand and reliability standards.
 - The remainder of the Black Hills Power filing seeks recovery of higher operating expenses including costs for regulatory compliance, utility fleet, fuel and employees.

- The utility requested the rate increase be effective on April 1, 2010 which is when the Wygen III generation facility is expected to begin commercial operation and start delivering electricity to Black Hills Power customers.
 - Nearing completion, the Wygen III generation facility is progressing through final testing to make sure everything is working properly and ready to deliver electricity as expected on April 1, 2010.
 - Engineering and procurement is completed.
 - Construction of the facility is 99 percent complete and the testing of the equipment is well underway.
 - During the week of February 15 the boiler was fired with natural gas.
 - On Friday, February 19 tests using mine-mouth coal as the fuel source went well.
 - Testing of emissions monitoring and other turbine /plant operating systems is on track and additional tuning on the pulverizers, burners and other equipment is being completed.
 - All work to finish Wygen III is continuing on schedule and as planned.

- Mine-mouth coal generation was determined by Black Hills Power to be the least cost option for generating the additional electricity needed to serve the growing customer demand. Other electric providers in our region, such as Basin Electric Cooperative, Municipal Energy Agency of Nebraska and Montana-Dakota Utilities Company, have recently made similar resource decisions.

- The South Dakota Public Utilities Commission must thoroughly review the information and consider the merits of each rate request they receive from all investor owned utilities in the state. This evaluation takes a significant amount of time for the Commission, its staff and consultants. At times, they may have rate requests from more than one utility under review, so this can extend the timeline to receive a final order.

- The South Dakota Public Utilities Commission has continued to evaluate the Black Hills Power rate request since it was filed on September 30, 2009 and although good progress is being made, the Commission is not expected to issue a final order by April 1, 2010.

- In light of this important South Dakota Public Utilities Commission responsibility and in the event the South Dakota Public Utilities Commission does not complete its review and issue a final order pertaining to a utility rate request within six months, South Dakota state law allows utilities like Black Hills Power to adjust customer rates on an interim basis, until a final order is received from the South Dakota Public Utilities Commission.

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- According to South Dakota state law, if the interim rates the utility plans to implement differ from the original rate request, the utility must make an additional filing with the South Dakota Public Utilities Commission that contains information regarding the variation and proposed interim rates.
- The utility must get the approval of the South Dakota Public Utilities Commission to implement interim rates that are different from the utility's original rate request, even if the proposed interim rates are lower.
- Black Hills Power understands that any rate increase can be difficult for our customers. Black Hills Power wants to ensure that the interim rates for electricity service on and after April 1, 2010 are implemented using the best information possible.
 - When Black Hills Power filed its original rate request on September 30, 2009 it contained the most accurate assumptions and information available at that time.
 - As is typical in a regulatory process that extends over a six month period or more – following a filing the utility continues operating and there are known and measurable costs that change, and in this case have reduced, the amount of Black Hills Power's original rate request.
 - An example of a known and measurable cost that has changed Black Hills Power's rate request is the recent issuance of long term debt at more favorable than expected rates – thus reducing the interest expenses contained in Black Hills Power's initial rate request.
- With this in mind, Black Hills Power plans to implement interim rates for electricity service on and after April 1, 2010 and on March 1, 2010 made a filing with the South Dakota Public Utilities Commission that contained the proposed interim rate increases specific to Black Hills Power customers.
 - The interim rates Black Hills Power plans to implement for South Dakota customers receiving electricity service on and after April 1, 2010 are an overall increase of \$24 million or approximately 20 percent.
 - As compared to Black Hills Power's original rate application filed on September 30, 2009 requesting and overall increase of \$32 million of approximately 26.6 percent.
 - A typical Black Hills Power South Dakota residential customer using 600 kilowatt-hours (kWh) of power each month will see an interim increase of \$12.18 per month, or about 40¢ per day.
 - As compared to Black Hills Power's original rate application filed on September 30, 2010 that proposed a typical Black Hills Power South Dakota residential customer using 600 kilowatt-hours (kWh) of power each month would see a rate increase of \$17.99 per month, or about 59¢ per day.
 - The interim rate increase implemented for Black Hills Power's South Dakota commercial and industrial customers receiving electricity service on and after April 1, 2010 will vary depending on the rate class, load factor and amount and nature of use.
 - Black Hills Power will meet with key accounts to discuss the rate changes specific to commercial and industrial customer bills.
- Interim rates for Black Hills Power South Dakota customers will apply to electricity consumption on and after April 1, 2010, will be included in customer bills beginning in April 2010 and will remain in effect until a final order pertaining to Black Hills Power's South Dakota rate request is received from the South Dakota Public Utilities Commission.
- Once a final order is received, if new rates approved by the South Dakota Public Utilities Commission are lower than the interim rates being charged, Black Hills Power South Dakota customers will receive an adjustment on their bill.
- The South Dakota Public Utilities Commission continues to evaluate Black Hills Power's rate request that was filed on September 30, 2009. The company is responding to data requests and meeting with interested parties in order to make progress towards a settlement while also preparing for a South Dakota Public Utilities Commission hearing.
- Black Hills Power's last base rate increase of 7.8 percent was based on 2005 costs and became effective in January 2007. Prior to that increase, Black Hills Power had not requested or received an increase in rates since 1995.