BLACK HILLS POWER, INC.
d/b/a BLACK HILLS ENERGY
SD PUC DOCKET: EL16-042

REQUEST DATE : 1/13/17

RESPONSE DATE : 1/27/17

REQUESTING PARTY: Staff

SDPUC Request No. 2-4:

Refer to BHP's tariff Section 3C, Sheet 12, line 3. Provide justification for a generation credit rate approximately one-half cent above BHP's current cost of fuel and purchased power.

Response to SDPUC Request No. 2-4:

The calculation in BHP's tariff Section 3C, Sheet 12 line 3 is a representation of the Company's marginal running costs of the system to serve historical load based upon a historical production process. This calculation adequately reflects the actual costs of producing energy when all variables are to remain constant.

The production cost model used in this docket, to set the Generation Credit rate, is a forecasted scenario based upon assumptions over a predetermined planning period. With the cost of producing electricity varying over a planning period and assumptions changing over a dimension of time, the optimum mix of generating costs change to best suit the forecasted scenario. As generation costs change to meet the optimum mix, the avoided costs change.

Attachments:

None