



Attachment B:

Peak View Wind Project

Pursuant to Decision No. C15-1182

June 1, 2018



Attachment B – Peak View Wind Project Narrative

Background

The Peak View Wind Project is a 60 MW wind project located in Huerfano and Las Animas Counties in Colorado. The project was initially selected as the winning bid in a competitive bid solicitation from Proceeding No. 13A-0445E.

The Commission granted Black Hills' request for a Certificate of Public Convenience and Necessity ("CPCN") to purchase and own the Peak View Wind Project consistent with the terms of a settlement agreement by Decision No. C15-1182 in Proceeding No. 15A-0502E ("the Settlement Agreement"). This decision approved the Settlement Agreement that was joined by Black Hills, Staff of the Colorado Public Utilities Commission, the Colorado Office of Consumer Counsel, the Colorado Energy Office, Western Resource Advocates, Invenergy Wind Development Colorado LLC, the Board of Water Works of Pueblo, the Fountain Valley Authority, and the Rocky Mountain Environmental Labor Coalition (collectively, the Settling Parties).

Settlement Agreement

While the Settlement Agreement contained a variety of key elements, some of them apply to this 2017 Annual RES Compliance Report. Below are a few key elements of the Settlement Agreement as they relate to the current 2017 Annual RES Compliance Report:

- The Company will not place the project into base rates before the end of 2026. Instead, the Company will collect the revenue requirement of the project through a combination of the Energy Cost Adjustment ("ECA") rider, the Transmission Cost Adjustment ("TCA") rider, and the Renewable Energy Standard Adjustment ("RESA").
- The avoided costs of the Peak View Wind Project, which represent the costs "avoided" due to the displacement of fuel and purchased power by the wind energy, were locked down on a \$/MWh basis through 2026. For 2017, this locked down avoided cost value is \$33.18 per MWh.
- The Company will only collect up to the avoided cost amount through a combination of the ECA and TCA. Any incremental costs above this avoided cost will be charged to the RESA account. Since the RESA is already a 2% charge on customers' monthly bills, this treatment ensures that customers are not paying more from a monthly bill perspective with the addition of the Peak View Wind Project as compared to not having the project.
- The Company will perform a standalone pro-forma revenue requirement analysis for each of the first ten calendar years of commercial operation of the Peak View Wind Project. The Company will perform this analysis twice – first to implement the projected costs for the coming year and second to perform a "true-up" using actual costs at the end of the year. Over the course of the year, the Company will recover these projected costs. Early in the following calendar year, the Company will conduct an analysis of actual costs and perform a true-up for any under or over-recovery of the Peak View Wind Project costs.

- The Company will report the calculated revenue requirement and rate recovery treatment each year in the Annual RES Compliance Report. This began with the 2016 Annual RES Compliance Report.
- The performance assessment tool detailed in the Settlement Agreement will only take place for calendar years 2018 through 2026. Beginning in calendar year 2018 (annual report filed in 2019), Black Hills will annually measure its calculated annual cost against the Peak View Power Purchase Agreement (“PPA”) cost. Black Hills will have a presumption of prudence for the recovery of the Peak View Wind Project cost if its calculated cost per MWh is lower than the PPA cost per MWh. If the Peak View Wind Project cost is higher than the PPA cost, Black Hills will be required to show the reasons(s) for the difference and will bear the burden of establishing the prudence of any costs above the PPA cost prior to recovery.

Revenue Requirement Comparison from 2017 Estimate as defined in Proceeding No.13A-0445E

Below is a comparison of the actual 2017 revenue requirement to the Company’s initial Peak View Revenue Requirement estimate in Proceeding No. 13A-0445E.

Each quarter through the ECA rider filing, the Company forecasts the Peak View Wind Project’s avoided costs based on the locked down \$/MWh value. Based on the forecasted avoided cost, the Company calculates the incremental cost and avoided cost to be recovered through the RESA and ECA, respectively. Two quarters later, through a respective ECA filing, the Company trues-up the Peak View Wind Project’s forecasted cost with actual cost. Attachment B – Revenue Requirement is the 2017 actual revenue requirement. The Peak View Wind Project’s revenue requirement is calculated on a monthly basis. This analysis is used to compare to the Year 1 revenue requirement per CMO-2 from Proceeding No. 13A-0445E.

The 2017 estimate forecasted a total 2017 Peak View Revenue Requirement of \$10,662,932. At the time of the forecast, the Company forecasted \$7,267,156 of this revenue requirement as being “avoided costs,” which would be recovered through the ECA and/or TCA. The remainder of the revenue requirement, which was estimated at the time as \$3,395,776, was forecasted to be charged to the RESA. As shown below, the 2017 actual Revenue Requirement was \$9,990,914, which is \$672,018 less than the original estimate.

Estimated 2017 Revenue Requirement from Proceeding No. 13A-0445E

| Time Period | Forecasted Avoided Costs (ECA) | Forecasted Incremental Cost/(Benefit) (RESA) | Forecasted Total Costs |
|-------------------------------------|---------------------------------------|---|-------------------------------|
| January 1, 2017 – December 31, 2018 | \$7,267,156 | \$3,395,776 | \$10,662,932 |

2017 Actual Revenue Requirement

| Time Period | Actual Avoided Costs (ECA) | Actual Incremental Cost/(Benefit) (RESA) | Actual Total Costs | Annual Production (MWh) | Cost per MWh |
|--|---|---|-----------------------------------|--|---------------------|
| January 1, 2017 – December 31, 2018 | \$6,648,423 | \$3,342,491 | \$9,990,914 | 200,393 | \$49.86 |

Per Attachment B – Revenue Requirement, Peak View Wind Project’s annual production was 18,649 MWh less than originally forecasted. This results in a lower actual avoided cost as compared to the estimated forecast from Proceeding No. 13A-0445E. In addition, the Company incurred fewer costs for Interest Expense, O&M, Property Tax, Corporate Allocations, Wind Integration Services, and Federal/State Income Tax Expenses, as compared to the forecast. As a result of these efficiencies and coupled with lower production amounts generating less production tax credits and avoided costs, the Peak View Wind Project’s revenue requirement was \$672,018 less than the original forecasted amount from Proceeding No. 13A-0445E. The actual incremental cost is calculated as the difference between the total cost and the total avoided cost.

The performance assessment tool, detailed in the Settlement Agreement, will only take place for calendar years 2018 through 2026. Beginning in calendar year 2018, if actual production from the Peak View Wind Project is less than the Settlement Agreement project (CMO-2) of energy production, the Company will normalize the actual wind generation. Black Hills did not perform the normalization for 2017, even though actual production was less than the production amount per CMO-2. The Company will apply the normalization process beginning in calendar year 2018, if necessary.

