

February 29, 2016

The Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: *Black Hills Power, Inc.*
Docket No. ER16-____-000
2016 Annual Formula Rate Update Informational Filing

Dear Secretary Bose:

Pursuant to the Federal Energy Regulatory Commission's ("Commission") orders in Docket Nos. EL14-71 and ER14-2869¹ and the formula rate protocols set forth in Attachment H of the Joint Open Access Transmission Tariff of Black Hills Power, Inc. ("Black Hills Power"), Basin Electric Power Cooperative, and Powder River Energy Corporation ("Joint Tariff"), Black Hills Power hereby submits for informational purposes this letter and supporting materials ("Informational Filing") that reflects Black Hill Power's Annual Transmission Revenue Requirement ("ATRR") effective as of January 1, 2016 under Attachment H of the Joint Tariff. The updated ATRR is based on actual cost data for 2014 and estimated cost data for 2016 pursuant to the Commission-accepted formula rate contained in Attachment H of the Joint Tariff.

I. BACKGROUND

On July 17, 2014, the Commission initiated an investigation pursuant to Section 206 of the Federal Power Act ("FPA") on Black Hills Power's formula rate protocols under Attachment H to the Joint Tariff. The Commission found that Black Hills Power's formula rate protocols under Attachment H to the Joint Tariff "appear to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful," and directed Black Hills Power, as the Joint Tariff administrator, to file revisions to the Black Hills Power formula rate protocols or to show cause why Black Hills Power should not be required to do so.² Specifically, the Commission found that Black Hills Power's formula rate protocols may be

¹ *Black Hills Power, Inc.*, 148 FERC ¶ 61,035 (2014) ("July 17 Order"); *Black Hills Power, Inc.*, 150 FERC ¶ 61,198 (2015) ("March 19 Order"); *Black Hills Power, Inc.*, Docket No. ER14-2869-001 (Nov. 12, 2015) (unpublished letter order).

² July 17 Order at P 29.

deficient in three areas: (1) scope of participation (*i.e.*, who can participate in the information exchange); (2) the transparency of the information exchange (*i.e.*, what is exchanged); and (3) the ability to challenge Black Hills Power's implementation of its formula rate as a result of the information exchange (*i.e.*, how parties may resolve their potential dispute).³

On September 12, 2014 and May 18, 2015, Black Hills Power submitted compliance filings pursuant to the Commission's directives in the July 17 Order and March 19 Order to revise its formula rate protocols. Included in these revisions were provisions requiring Black Hills Power to make an annual informational filing of its updated ATRR with the Commission. The March 19 Order accepted the annual informational filing provisions contained in Section V of Attachment H to the Joint Tariff.⁴

II. INFORMATIONAL FILING

Section V of the formula rate protocols set forth in Attachment H of the Joint Tariff provides that, by March 1 of each year, Black Hills Power shall submit to the Commission an informational filing of its projected net revenue requirement and annual true-up in connection with the postings performed in accordance with Section II of the formula rate protocols during the prior year. Section V further provides that the informational filing is to include information that is reasonably necessary to determine: (1) that input data under the formula rate are properly recorded in any underlying workpapers; (2) that Black Hills Power has properly applied the formula rate and these procedures; (3) the accuracy of data and the consistency with the formula rate of the net revenue requirement and rates under review; (4) the extent of accounting changes that affect formula rate inputs; and (5) the reasonableness of projected costs. The formula rate protocols require Black Hills to submit in its informational filing the formula rate template and underlying workpapers in native format fully populated with formulas intact.

The formula rate protocols also require that the informational filing describe any corrections or adjustments made during that period, and describe all aspects of the formula rate or its inputs that are the subject of an ongoing dispute under the informal or formal challenge procedures set forth in Section IV of the formula rate protocols.

In accordance with requirements under Section V of the formula rate protocols contained in Attachment H of the Joint Tariff, Black Hills Power provides the following:

- This Transmittal Letter;
- 2014 BHP Attachment H Transmission Rate True-Up;

³ *Id.* P 10.

⁴ March 19 Order at P 32.

- 2014 BHP Attachment H True-Up Supplemental Supporting Schedules;
- 2016 BHP Attachment H ATRR Rates; and
- 2016 BHP Attachment H ATRR Supplemental Supporting Schedules.

No aspect of Black Hills Power's formula rate or its inputs regarding Black Hills Power's Annual True-Up for Service Year 2014 or Black Hills Power's projected net revenue requirement for Service Year 2016 are the subject of an ongoing dispute under the informal or formal challenge procedures set forth in Section IV of the formula rate protocols.

Pursuant to recent Internal Revenue Service ("IRS") private letter rulings,⁵ Black Hills Power corrected its projected net revenue requirement for Service Year 2016 shortly after posting the projected net revenue requirement on its website and OASIS in accordance with the formula rate protocols by applying the proration formula to accumulated deferred income taxes ("ADIT") for purposes of calculating rate base for the projected net revenue requirement. The projected net revenue requirement that was originally posted on September 30, 2015 was reduced by \$227,520 as a result of applying the proration formula. Notably, the IRS normalization rules do not apply to historical periods and, consequently, no change was required to the calculations for the 2014 Annual True-Up. Work Paper 9 was added to the 2016 Supplemental Supporting Schedules to support the ADIT calculation adjustment to rate base.

The Attachment H formula rate protocols require that Black Hills Power's Annual True-Up for the preceding Service Year and projected net revenue requirement for the following Service Year be posted on its website and OASIS by June 1 and September 30 of each year, respectively. Further, within ten days of posting the Annual True-Up and projected net revenue requirement, Black Hills Power is required to provide notice of such postings to Interested Parties via an email exploder list for which Interested Parties may subscribe on the Black Hills Power website. Attachment H, §§ II.1-2.

Following the posting of the Annual True-Up and projected net revenue requirement, Sections II.6-7 of the formula rate protocols require that Black Hills Power hold open meetings with Interested Parties to permit Black Hills Power to explain and clarify its Annual True-Up and projected net revenue requirement, and to provide Interested Parties an opportunity to seek information and clarifications from Black Hills Power regarding the same. The open meetings on the Annual True-Up is to be held by July 1 each year, and the open meeting on the projected net revenue requirement is to be held by October 30 each year. Attachment H, §§ II.6-7.

The following table summarizes Black Hills Power's compliance with the specific deadlines set forth in the protocols:

⁵ See, e.g., I.R.S. Priv. Ltr. Rul. 201531012 (July 31, 2015); I.R.S. Priv. Ltr. Rul. 201531011 (July 31, 2015); I.R.S. Priv. Ltr. Rul. 201531010 (July 31, 2015).

Activity	Due Date	Date Activity Completed
Determine Annual True-Up for Rate Year 2014 and Post on Website and OASIS	June 1, 2015	May 29, 2015
Send notice by email exploder list the posting of the True-Up calculation	June 10, 2015	June 8, 2015
Send notice by email exploder list and post on website and OASIS of Annual True-Up meeting	June 22, 2015	June 18, 2015
Hold Annual True-Up Meeting	July 1, 2015	June 29, 2015
Determine Projected Net Revenue Requirement for Rate Year 2016 and Post on Website and OASIS	September 30, 2015	September 29, 2015
Send Notice by email exploder list the posting of Attachment H Rates	October 9, 2015	October 5, 2015
Send notice by email exploder list and post on website and OASIS of Annual Projected Rate Meeting	October 19, 2015	October 14, 2015
Hold Annual Projected Rate Meeting	October 30, 2015	October 26, 2015

III. SERVICE

In accordance with Section V.1 of the Attachment H formula rate protocols, Black Hills Power will provide notice of this Informational Filing via an email exploder list and by posting the docket number assigned to this Information Filing on Black Hills Power's website and OASIS within five days.

The Honorable Kimberly D. Bose, Secretary

February 29, 2016

Page 5

Thank you for your attention to this matter. Please contact the undersigned if you have any questions concerning this Informational Filing.

Respectfully submitted,

/s/ Blake R. Urban

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Catherine P. McCarthy

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