BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

Proceeding No. 14A-0535E

IN THE MATTER OF THE APPLICATION OF BLACK HILLS/COLORADO ELECTRIC UTILITY COMPANY, LP FOR APPROVAL OF ITS 2015-2017 RENEWABLE ENERGY STANDARD (RES) COMPLIANCE PLAN.

Proceeding No. 14A-0534E

IN THE MATTER OF THE APPLICATION OF BLACK HILLS/COLORADO ELECTRIC UTILITY COMPANY, LP FOR APPROVAL OF ITS 2014 ECA-RESA ADJUSTMENTS AND ECA TARIFF REVISION.

SETTLEMENT AGREEMENT

Pursuant to Rule 1408, Black Hills/Colorado Electric Utility Company, LP ("Black Hills" or the "Company") and the Staff of the Colorado Public Utilities Commission ("Staff") (collectively, "Settling Parties"), by their undersigned counsel, and for good and valuable consideration, enter into this Settlement Agreement ("Settlement Agreement") to resolve all disputes that have arisen between them related to the Company's Verified Application filed in Proceeding No. 14A-0534E. The Settling Parties specifically request that the Commission approve this Settlement Agreement as consistent with the public interest.

CERTIFICATE OF CONFERRAL

The undersigned counsel certifies that counsel for Black Hills has conferred with counsel for all other parties[1] about this Settlement and is authorized to state that the Colorado Office of Consumer Counsel ("OCC"), the Colorado Energy Office ("CEO") and Colorado Independent

[1] The parties are defined in the Procedural History section below.

Energy Association ("CIEA") do not oppose the Settlement Agreement. Western Resource Advocates ("WRA") takes no position on the Settlement Agreement.

I. PROCEDURAL HISTORY

1. On May 23, 2014, Black Hills filed the two applications that are the subjects of this consolidated proceeding:

(1) Application for Approval of Black Hills' 2015-2017 Renewable Energy Standard Compliance Plan ("RES Compliance Plan"), which became Proceeding No. 14A-0535E (the "RES Compliance Plan Application") and

(2) Application for Approval of Black Hills' 2014 ECA-RESA Adjustments and ECA Tariff Revision, which became Proceeding No. 14A-0534E.

The Commission consolidated these two proceedings by Decision No. C14-0831-I.

2. By Decision No. C14-0831-I, the following parties were granted intervention by the Commission in this consolidated proceeding:

- Staff
- OCC
- CEO
- CIEA
- WRA

3. The Administrative Law Judge ("ALJ") convened a prehearing conference on August 12, 2014, and all parties appeared and offered positions on specific issues identified by Decision No. R14-0863-I.

4. By Decision No. R14-0989-I, issued August 14, 2014, the ALJ set the matter for hearing and required that testimony and exhibits be filed in two parts. The ALJ ordered the parties to submit a proposed order setting forth the scope of Part I and Part II, and the Company coordinated that filing and submitted a proposed order on August 28, 2014.

5. By Decision No. R14-1091-I, issued September 8, 2014, the ALJ accepted the division of the disclosure of evidence as set forth by the parties with certain modifications.

6. All of the issues raised by the Verified Application and supporting testimony and attachments filed in Proceeding No. 14A-0534E were designated as Part I evidentiary disclosures.

7. On October 16, 2014, Staff and OCC filed answer testimony. The answer testimony of Staff witness Mr. Dalton was the only testimony addressing any issues in Proceeding No. 14A-0534E, as well as select other Part I issues. The answer testimony of OCC witness Chris Neil, on the other hand, addressed Part II issues and, for purposes of this Settlement Agreement, did not raise any issues with regard to the Company's proposed ECA and RESA adjustments or proposed revisions to the ECA tariff set forth in Proceeding No. 14A-0534E.

8. On December 4, 2014, Black Hills filed rebuttal testimony and attachments rebutting the answer testimony filed by Staff and reserving its right to address the Part II issues raised by the OCC in testimony filed as part of the Part II evidentiary disclosures contemplated by Decision No. R14-0989-I.

9. Because Staff was the only party that filed testimony related to the ECA and RESA adjustment issues and ECA tariff revisions proposed in Proceeding No. 14A-0534E, Black Hills and Staff (as the Settling Parties) commenced settlement negotiations. The Settling Parties have reached a settlement of all issues in Proceeding No. 14A-0534E. Accordingly, Black Hills and Staff are jointly filing a motion to approve this Settlement Agreement and to sever Proceeding No. 14A-0534E to allow for the more immediate adjudication of the Settlement

Agreement given that hearings in the consolidated proceeding are not scheduled until April 21-23, 2015.

10. This Settlement Agreement memorializes the negotiated settlement among and between the Settling Parties on all the issues raised in Proceeding No. 14A-0534E. As a result of these negotiations and this Settlement Agreement, the Settling Parties agree as set forth herein that the issues in dispute between them in this proceeding related to Black Hills' Renewable Energy Standard Adjustment ("RESA") and Energy Cost Adjustment ("ECA") accounting adjustments and proposed revisions to its ECA tariff have been resolved to the satisfaction of the Settling Parties. The Settling Parties agree that this Settlement Agreement is a fair, just, and reasonable resolution of these issues.

11. The Settling Parties agree that the Commission should grant Black Hills' Verified Application filed in Proceeding No. 14A-0534E consistent with this Settlement Agreement. Any issue not discussed in this Settlement Agreement should be determined consistent with Black Hills' Verified Application as filed in Proceeding No. 14A-0534E, as supported by the Company's direct and rebuttal testimonies and related attachments.

12. The Settling Parties stipulate that all testimonies and attachments filed by Black Hills and the other parties in Proceeding No. 14A-0534E should be admitted into evidence and made part of the record in this proceeding. The Settling Parties agree to support and defend the terms and principles of the Settlement Agreement before the Commission.

II. SETTLEMENT AGREEMENT

This section sets forth the negotiated resolution of the issues between the Settling Parties.

A. Approval of the Solar DG avoided cost adjustment

13. The Company proposed an accounting adjustment in its direct case filed in Proceeding No. 14A-0534E to recover through the ECA $1,931,854 in purchased energy costs reflecting avoided costs associated with its solar distributed generation ("Solar DG") program for the years 2012 through 2014. Recovery of Solar DG avoided costs through the ECA was approved by Decision C14-0007 in the Company's 2013-2014 RES Plan. In reviewing Solar DG production for 2013-2014, the Company determined it had not accounted for all of the Solar DG production in its 2013-2014 RES Plan avoided cost estimates. In addition, the Company re-calculated the overstated 2012 Solar DG avoided costs using the same methodology that was approved in the 2013-2014 RES Compliance Plan by Decision No. C14-0007. This value (*i.e.,* that approved in the 2013-2014 RES Compliance Plan) was used to develop more accurate modeling assumptions than those used in the original calculation for the 2012 RES Compliance Plan in Docket No. 11A-419E.

14. The Settling Parties acknowledge and agree that using the costs derived from the methodology approved by Decision No. C14-0007 is the best representation of the avoided costs available for the Solar DG resources. The Settling Parties further acknowledge and agree that cost recovery of these Solar DG avoided costs is appropriate. Finally, the Settling Parties further agree that these previously unaccounted for avoided costs should be charged against the ECA and not the RESA and collected as set forth in the Verified Application and supporting testimonies and attachments filed by the Company in Proceeding No. 14A-0534E. As set forth

on Attachment A to this Settlement Agreement, $1,929,146 will be collected through the ECA with a corresponding savings of $(1,929,146) to the RESA.[2]

B. Approval of the Busch Ranch Wind Project avoided cost adjustment

15. The Company proposed an accounting adjustment in its direct case filed in Proceeding No. 14A-0534E to recover avoided costs that have yet to be collected for the Busch Ranch Wind Project for years 2012-2014. Of this amount, the incremental savings is to be applied to reduce the RESA deficit consistent with Decision C14-0007, which in part approved the Company's 2013-2014 RES Plan. Decision No. C14-0007 approved the calculation of the net incremental cost/savings of the Busch Ranch Wind Project, and this decision also approved the Company recovering all Busch Ranch Wind Project avoided costs through the ECA from 2012 until it is placed into base rates. It was further approved that any savings, *i.e.,* the difference between the Forecasted Busch Ranch Costs (Revised Table 5, Exhibit No. FCS-4, Proceeding No. 13A-0445E) and all Busch Ranch Wind Project avoided costs, would be credited to the RESA. On December 22, 2014, the Commission approved the placement of the Company's 50 percent ownership share in the Busch Ranch Wind Project into base rates by Decision No. C14-1504.

16. The Settling Parties acknowledge and agree that cost recovery of these Busch Ranch Wind Project costs is appropriate. The Settling Parties further acknowledge and agree that these previously uncollected avoided costs should be collected through the ECA, with any incremental savings credited to the RESA, consistent with Decision C14-0007. As set forth on

[2] Final adjustment values differ slightly than what was proposed in the Verified Application and supporting testimonies and attachments filed in Proceeding No. 14A-0535E on May 23, 2014. This is the result of using actual 2014 production figures compared to the forecasts used in the direct case as filed. The actual 2014 production figures were not available at the time of filing.

Attachment B, $3,769,014 will be collected through the ECA and an incremental savings of $(1,670,279) will be credited to the RESA.[3]

C. Approval of the Vestas REC Contract adjustments related to Section 124 designation and establishment of avoided cost forecast in next RES Compliance Plan

17. Consistent with Decision No. C14-0007 determining the Vestas demonstration wind turbine was not a Section 123 resource, the Company proposed in its direct case filed in Proceeding No. 14A-0534E to make certain accounting adjustments necessary to reflect the treatment of the Vestas demonstration wind turbine as a Section 124 resource. As a Section 124 resource, beginning on the date of designation as a Section 124 resource only the avoided cost should have been collected through the ECA with any incremental costs collected through the RESA.

18. The Settling Parties acknowledge and agree that cost recovery of the Vestas REC Contract adjustment costs is appropriate. As set forth on Attachment C, the ECA needs to be credited by $(180,942) to reflect the incremental portion of the Vestas REC Contract for years 2013-2014 that was originally collected through the ECA, and the RESA needs to be charged this same incremental amount.[4]

19. Black Hills further acknowledges and agrees to calculate and propose an avoided cost amount for the Vestas demonstration wind turbine in its next RES Compliance Plan based on actual data obtained from the Vestas production meter. The Company's next RES Compliance

[3] Final adjustment values differ slightly than what was proposed in the Verified Application and supporting testimonies and attachments filed in Proceeding No. 14A-0535E on May 23, 2014. This is the result of using actual 2014 production figures compared to the forecasts used in the direct case as filed. The actual 2014 production figures were not available at the time of filing.

[4] Final adjustment values differ slightly than what was proposed in the Verified Application and supporting testimonies and attachments filed in Proceeding No. 14A-0535E on May 23, 2014. This is the result of using actual 2014 production figures compared to the forecasts used in the direct case as filed. The actual 2014 production figures were not available at the time of filing.

Plan will be filed with the Company's next ERP on or before October 31, 2015 pursuant to Rule 3657(a)(IV) and covers the resource acquisition period related to that ERP.

D. Approval of the Vestas REC contract adjustments related to Monthly Renewables Reports

20. The Company proposed in its direct case filed in Proceeding No. 14A-0534E to make certain adjustments related to its reporting of amounts related to the Vestas REC Contract. In all monthly renewables reports submitted to the Commission since 2011, the Company has shown all Vestas REC Contract payments as being charged to the RESA. This resulted in $622,360 being shown as charged to the RESA on the Company's Monthly Renewables Report for 2011-2013 when all of these dollars were actually collected through the ECA. No payments were actually coded to the Company's internal RESA accounting system, and no interest has been charged to the RESA since the payments were not actually coded to this account.

21. The Settling Parties acknowledge and agree that this reporting adjustment is appropriate and no dollars need to be collected or transferred as a result of this reporting error. The parties further acknowledge and agree that this adjustment is accurately reflected in the beginning 2014 RESA balance shown in the tables provided in its 2015-2017 RES Compliance Plan filed as Corrected Exhibit No. FCS-1 in Proceeding No. 14A-0535E. Black Hills has corrected this reporting error beginning with its April 2014 Monthly Renewables Report. This amount is not shown on the Summary page to Attachments A-D to this Settlement Agreement since no dollars need to be collected or transferred with this piece of the Vestas REC Contract adjustment.

E. Approval of future recovery of Vestas REC contract expenditures

22. Staff witness Mr. Dalton recommended in his answer testimony that the Company

be denied any cost recovery for the Vestas REC Purchase Contract.[5] The Company responded in the rebuttal testimonies of Black Hills witnesses Mr. Stoffel and Mr. Gillen that this recommendation was inappropriate because (1) the Company is not required to submit the Vestas REC Contract to the Commission for approval in order to obtain cost recovery; (2) recovery is consistent with the strong Commission policy allowing recovery of prudently incurred costs to acquire eligible energy resources; and (3) the recommended disallowance is inconsistent with Staff's review of Annual Compliance reports containing these costs.

23. The Settling Parties acknowledge and agree that the Company should be permitted to continue to recover the prudently incurred costs associated with the single wind turbine described in the Vestas REC Contract, consistent with the Commission's designation of the Vestas demonstration wind turbine as a Section 124 resource (*i.e.,* avoided costs recovered through the ECA and incremental costs recovered through the RESA). The Settling Parties further acknowledge and agree that costs incurred since the execution of the Vestas REC Contract on June 21, 2010 have been prudently incurred.

F. Approval of ECA interest rate for unrecovered costs

24. Staff witness Mr. Dalton recommended in his answer testimony that any earned interest on unrecovered costs should be at the applicable ECA interest rate as opposed to the RESA interest rate. Company witness Mr. Gillen filed rebuttal testimony agreeing with this concept and including the proposed interest calculation on a monthly basis in Hearing Exhibit 7, Attachment 3.

25. The interest calculation in Hearing Exhibit 7, Attachment 3 used the 90-day commercial paper interest rate. The Settling Parties acknowledge and agree that the interest on

[5] Black Hills Energy REC Purchase Contract, Customer-Sited Wind Turbine Demonstration Project Less Than 2 MW DC Nameplate Capacity, effective June 21, 2010.

unrecovered costs shall instead be calculated at the applicable ECA interest rate, *i.e.,* the customer deposit interest rate. The interest calculation on unrecovered funds is set forth on Attachment D. This results in $15,760 being charged to the ECA and the Company forfeiting $424,285 in interest that has already been charged to the RESA account, which further reduces the RESA balance.

G. Approval of two-year recovery period for unrecovered costs

26. The Company proposed in its direct case filed in Proceeding No. 14A-0534E to recover the unrecovered costs pursuant to the adjustments agreed to herein over a two-year recovery period.

27. The Settling Parties acknowledge and agree that the Company shall recover the unrecovered costs pursuant to the adjustments agreed to herein over a two-year recovery period.

H. Approval of proposed ECA tariff revisions

28. The Company proposed in its direct case filed in Proceeding No. 14A-0534E to make certain revisions to its ECA tariff and filed Exhibit No. EJG-4 setting forth the proposed changes. Black Hills further requested a Commission order directing the Company to make a compliance filing seven days after the effective date of the Commission's decision in this proceeding to place the approved tariff sheets into effect.

29. The Settling Parties acknowledge and agree that the ECA tariff revisions set forth on Attachment E are appropriate and just and reasonable. The Settling Parties further acknowledge and agree that the compliance filing approach proposed by Black Hills is appropriate and the Company should make a compliance filing seven (7) days after the effective date of the Commission's decision in Proceeding No. 14A-0534E to place the approved tariff sheets into effect. The ECA tariff revisions are set forth on Attachment E.

III. GENERAL TERMS AND CONDITIONS

30. Through active prehearing investigation and negotiations, the Settling Parties have negotiated agreements set forth in this Settlement Agreement, resolving the enumerated contested and disputed issues in this proceeding in a manner which the Settling Parties agree is just and reasonable and in the public interest. This Settlement Agreement reflects the compromise and settlement of those issues between the Settling Parties in this proceeding. The Settling Parties further agree that reaching agreement by means of negotiations, rather than through litigation, is in the public interest.

31. The Settling Parties agree to present, to support, and to defend this Settlement Agreement before the Commission and in the courts. They further agree to present testimony and exhibits in any hearing set, in whole or in part, for the purpose of obtaining the Commission's approval of this Settlement Agreement. This Settlement Agreement shall not become effective until the issuance of a final Commission Order approving the Settlement Agreement which Commission Order does not contain any modification of the terms and conditions of this Settlement Agreement that is unacceptable to any of the Settling Parties. In the event the Commission modifies this Settlement Agreement in a manner unacceptable to any of the Settling Parties, that Party shall have the right to withdraw from this Agreement and proceed to hearing on the issues that may be appropriately raised by that Party in this proceeding. The withdrawing Party shall notify the Commission and the other Party to the Settlement Agreement by e-filing within three business days of the Commission-ordered modification that the Party is withdrawing from the Settlement Agreement and that the Party is ready to proceed to hearing; the e-filing shall designate the precise issue or issues upon which the Party desires to proceed to hearing.

32. Approval by the Commission of this Settlement Agreement shall constitute a

determination that the Settlement Agreement represents a just, equitable, and reasonable resolution of the disputed issues resolved herein.

33. The Settling Parties specifically agree and understand that this Settlement Agreement represents a negotiated settlement that is in the public interest with respect to the various matters and issues enumerated herein. The Settling Parties shall not be deemed to have approved, accepted, agreed to, or consented to any concept, theory or principle underlying or supposed to underlie any of the matters provided for in this Settlement Agreement, other than as specifically provided for herein. Notwithstanding the resolution of the issues set forth in this Settlement Agreement, none of the methods or principles herein contained shall be deemed by the Settling Parties to constitute a settled practice or precedent in any future proceeding.

34. This Settlement Agreement embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. The parties are not relying on any statement or representation not contained herein.

35. This Settlement Agreement may be executed in counterparts and by facsimile or electronic copies of signatures, all of which when taken together shall constitute the entire Settlement Agreement with respect to the matters addressed herein.

IV. CONCLUSION

36. For the reasons stated above, the Settling Parties respectfully request that the Commission enter an order approving this Settlement Agreement, with the finding that the Commission's approval of this Settlement Agreement represents a fair, just, and reasonable resolution of any and all disputes in this proceeding as to those issues.

Date: February 3, 2015

Approved as to form:

BLACK HILLS/COLORADO ELECTRIC UTILITY COMPANY, LP:

By: */s/ Kevin L. Opp*
Kevin L. Opp # 36607
Corporate Counsel
Black Hills Corporation
1515 Wynkoop Street, Suite 500
Denver, CO 80202
Telephone: 303-566-3455
Email: kevin.opp@blackhillscorp.com

Attorney for Black Hills/Colorado Electric Utility Company, LP

Agreed on behalf of:

BLACK HILLS/COLORADO ELECTRIC UTILITY COMPANY, LP:

By: */s/ Fredric C. Stoffel*
Fredric C. Stoffel
Director of Regulatory Services
Black Hills Corporation
1515 Wynkoop, Suite 500
Denver, CO 80202
Telephone: 303-566-3386
Email: fred.stoffel@blackhillscorp.com

Approved as to form:

OFFICE OF THE ATTORNEY GENERAL

By: */s/ Scott C. Dunbar*

Scott C. Dunbar, # 44521*
Assistant Attorney General
Anne K. Botterud, # 20726*
First Assistant Attorney General
Revenue and Utilities Section
Attorneys for Trial Staff of the
Public Utilities Commission
Ralph L. Carr Colorado Judicial Center
1300 Broadway, 8th Floor
Denver, Colorado 80203
Telephone: 720-508-6336 (Dunbar)
Telephone: 720-508-6334 (Botterud)
Fax: -720-508-6038
Email: scott.dunbar@state.co.us
Email: anne.botterud@state.co.us

Attorneys for Staff of the Colorado Public Utilities Commission

Agreed on behalf of:

STAFF OF THE COLORADO PUBLIC UTILITIES COMMISSION:

By: */s/ Gene Camp*

Gene Camp, PE
Chief Engineer
Energy Section
Colorado Department of Regulatory Agencies
Public Utilities Commission
Energy Section
1560 Broadway, Suite 250
Denver, CO 80202
Telephone: 303-894-2047
Email: gene.camp@state.co.us

CERTIFICATE OF SERVICE

I hereby certify that on February 3, 2015 the foregoing document was served on those parties shown on the Commission's Certificate of Service accompanying such filing.

By: */s/ Marion Lara*