

Attachment A to Unopposed Joint Motion to Approve Settlement Agreement

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 17A-0272G

IN THE MATTER OF THE VERIFIED JOINT APPLICATION OF BLACK HILLS/COLORADO GAS UTILITY COMPANY, LP D/B/A BLACK HILLS ENERGY AND BLACK HILLS GAS DISTRIBUTION, LLC D/B/A BLACK HILLS ENERGY, FOR APPROVAL OF A COMBINED NATURAL GAS DEMAND SIDE MANAGEMENT (DSM) PLAN FOR CALENDAR YEARS 2018, 2019 AND 2020 AND FOR APPROVAL OF REVISIONS TO THEIR GAS DSM COST ADJUSTMENT TARIFFS.

SETTLEMENT AGREEMENT

Pursuant to Rule 1408 of the Commission's Rules of Practice and Procedure, 4 CCR 723-1-1408, Black Hills/Colorado Gas Utility Company, LP ("BHCOG") and Black Hills Gas Distribution, LLC ("BHGD"), collectively (the "Companies"), Trial Staff of the Colorado Public Utilities Commission ("Staff"), the Colorado Office of Consumer Counsel ("OCC"), and Energy Outreach Colorado ("EOC") (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 "Verified Joint Application of Black Hills/Colorado Gas Utility Company, LP d/b/a Black Hills Energy and Black Hills Gas Distribution, LLC d/b/a Black Hills Energy, for Approval of a Combined Natural Gas Demand Side Management (DSM) Plan for Calendar Years 2018, 2019 and 2020 and for Approval of Revisions to their Gas DSM Cost Adjustment Tariffs" (the "Joint Application") that commenced the instant Proceeding No. 17A-0272G (the "Proceeding"). The Settling Parties specifically request that the Colorado Public Utilities Commission (the "Commission") approve this Settlement Agreement as consistent with the public interest.

I. BHCOG AND BHGD DSM PLAN BACKGROUND AND PROCEDURAL HISTORY

1. Demand Side Management (“DSM”) is generally predicated on the notion that saving a unit of energy is less expensive than producing and consuming a unit of energy. Investing in technologies, products and process improvements that save energy can be more economical than building additional supply side resources or finding, producing, delivering and burning additional energy commodities.

2. House Bill (HB) 07-1037, *Concerning Measures to Promote Energy Efficiency, and Making an Appropriation Therefore*, was passed by the Colorado General Assembly and signed into law by Governor Ritter in 2007, and codified in relevant part at § 40-1-102(5), (6) and (7), C.R.S., as well as §§ 40-3.2-101 and 103, C.R.S. The legislative purpose of DSM is found in § 40-3.2-101, C.R.S., which states:

The general assembly hereby finds, determines, and declares that cost-effective natural gas and electricity demand-side management programs will save money for consumers and utilities and protect Colorado's environment. The general assembly further finds, determines, and declares that providing funding mechanisms to encourage Colorado's public utilities to reduce emissions or air pollutants and to increase energy efficiency are matters of statewide concern and that the public interest is served by providing such funding mechanisms. Such efforts will result in an improvement in the quality of life and health of Colorado citizens and an increase in the attractiveness of Colorado as a place to live and conduct business.

The Colorado Legislature tasked the Commission with, among other things, developing expenditure and natural gas savings targets, funding and cost-recovery mechanisms, and a financial bonus structure.

3. In Rule 4750, the Commission summarized the overview and purpose of gas DSM as well as its Rules, stating in part as follows:

Consistent with statutory requirements, the purpose of these Demand Side Management (DSM) rules is to reduce end-use natural gas consumption in a cost effective manner, in order to save money for consumers and utilities,

and protect the environment by encouraging the reduction of emissions and air pollutants.

4. Colorado gas utilities, consistent with the above-referenced Colorado statutes and Commission rules, are required to have DSM plans. In particular, pursuant to Rule 4750, a gas utility is required to:

design DSM programs for its full service customers to achieve cost-effective energy savings, considering factors such as: achievable energy savings, customer benefits, cost effectiveness ratios, adoption potential, market transformation capability and ability to replicate in the utility service territory.

In addition, DSM plans are required to cover a period of three years, unless otherwise ordered by the Commission.¹

5. Consistent with the foregoing requirements, both BHCOG and BHGD have previously implemented natural gas DSM Plans, and both have plans going through calendar year 2017. Their respective service territories are reflected in Attachment 1 to this Settlement Agreement. BHCOG provides gas utility service to approximately 81,500 customers in the east central area of Colorado. Gas utility service areas include Castle Rock, south of Castle Rock to Fountain, Woodland Park, Elizabeth, Limon and east of Limon to the Colorado/Kansas state border, and the surrounding areas to these cities/towns. BHGD has two separate Base Rate areas. Base Rate Area 1 serves over thirty towns in the Western Slope area of Colorado, with retail distribution of natural gas serving towns from Avon west to Collbran and south from Collbran to Telluride. Base Rate Area 1 also includes the following towns located on the Front Range: Frederick, Erie, Mead, Firestone, Dacono, and Wellington. Base Rate Area 1 has about 73,000 customers. Base Rate Area 2 provides local distribution service in northeastern

¹ Commission Rule 4752(c).

Colorado, and to customers in and around the towns of La Junta, Pagosa Springs, and Bayfield.

Base Rate Area 2 has about 22,000 customers.

6. On May 1, 2017, the Companies commenced this proceeding by filing the Joint Application, seeking approval of a Combined Natural Gas DSM Plan for calendar years 2018, 2019 and 2020 (the “Combined DSM Plan”)(Attachment JD-1 to Mr. Dillon’s Direct Testimony), as well as approval of changes to the Companies’ tariffs that are on file with the Commission. On that same date, and in support of the Combined DSM Plan, the Companies filed supporting testimony as well as a Joint Motion for Partial Waiver of Rule 4753(f)(VI) and such other Waivers as may be Necessary to Implement the Combined Plan (the “Joint Motion”), through which they are seeking waivers necessary to implement the Combined DSM Plan, including a partial waiver of Rule 4753(f)(VI)’s requirement that each proposed DSM program have a projected value greater than or equal to 1.0 using a modified TRC test (“mTRC”) (excluding Low-Income programs).

7. On May 2, 2017, the Commission issued its Notice of Application Filed and, thereafter, OCC filed its Notice of Intervention as of Right on June 1, 2017 and requested a hearing. Also on June 1, 2017, EOC filed its Motion to Intervene. On June 6, 2017, Staff filed its Notice of Intervention as of Right and requested a hearing. There are no other intervenors in this Proceeding.

8. At its weekly meeting on June 14, 2017, the Commission deemed the Application complete and referred it to Administrative Law Judge Robert I. Garvey (the “ALJ”).

9. On June 28, 2017, by Interim Decision No. R17-0535-I, EOC’s intervention was granted and a prehearing conference was scheduled for July 25, 2017. On July 19, 2017, the parties filed a Joint Motion to Vacate Prehearing Conference, for Approval of Proposed

Procedural Schedule, Discovery Procedures, Confidentiality Procedures and for Waiver of Response Time.

10. On July 20, 2017, through Decision No. R17-0590-I, the ALJ vacated the prehearing conference and set the procedural schedule. The adopted procedural schedule is as follows:

Answer Testimony	August 25, 2017
Rebuttal/Cross Answer Testimony	September 8, 2017
Prehearing and Dispositive Motions	September 15, 2017
Corrected Testimony and Attachments	September 18, 2017
Stipulations and Settlement	September 18, 2017
Evidentiary hearing (one day)	September 26, 2017
Statements of Position	October 9, 2017

Moreover, by Decision No. R17-0590-I, the ALJ adopted discovery and confidentiality procedures.

11. In late July, the parties to the Proceeding commenced settlement negotiations, and thereafter reached an agreement in principle on all matters raised in the Joint Application and the Joint Motion.

12. This Settlement Agreement memorializes the negotiated settlement among and between the Settling Parties on all the issues raised in the Proceeding. 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 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. The Settling Parties also believe that approval of the Settlement Agreement is in the public interest.

13. The Settling Parties agree that the Commission should grant the Joint Application, as well as the Joint Motion, consistent with this Settlement Agreement.

14. The Settling Parties stipulate that all testimonies and attachments filed by the Companies in the Proceeding 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

The Settling Parties hereby stipulate and agree as follows:

A. Background and Compliance with Minimum Expenditure Requirement

15. This Settlement Agreement reflects the input and careful consideration of all issues by the Settling Parties. Through this Settlement Agreement, the Settling Parties have agreed to revise the DSMCA Tariffs, and they further agree that the revised DSMCA Tariffs, along with the Companies' Joint Application, Combined DSM Plan, and Joint Motion, as originally filed in the Proceeding, incorporate substantial public policy reasons for their approval by the Commission and are, with the partial waiver of the requirements of Rule 4753(f)(VI), in compliance with Commission rules.

16. The Settling Parties agree that, in compliance with Colorado statutes and Commission rules, the purpose of the Combined DSM Plan is to reduce end-use natural gas consumption in a cost effective manner, in order to save money for consumers and the Companies, and protect the environment by encouraging the reduction of emissions and air pollutants. The Settling Parties agree that the Companies have designed the Combined DSM Plan to achieve cost-effective energy savings, considering factors such as: achievable energy savings, customer benefits, cost effectiveness ratios, adoption potential, market transformation capability and ability to replicate in their service territories.

17. Consistent with these objectives, and as explained in more detail in this Settlement Agreement, the Companies seek to implement and continue, as applicable, BHCOG DSM programs for both Companies, with only modest changes to design, incentives, delivery, and operating protocols. In addition, the Companies have added a new Nonresidential New Construction Program.²

18. The Settling Parties acknowledge that the Companies present an overall cost-effective portfolio, with an mTRC of 1.19 for BHCOG and an mTRC of 1.17 for BHGD. While, as discussed later in this Settlement Agreement, some of the individual programs within the portfolio are not cost-effective, the Settling Parties agree that the Combined DSM Plan, as presented by the Companies, should be approved by the Commission.

i. Approval of Compliance with Minimum Expenditure Requirements

19. The Colorado legislature established minimum expenditure and savings targets for natural gas DSM programs in Colo.Rev.Stat. § 40-3.2-103(2)(a) and (b), which direct the Commission to:

- Adopt DSM program expenditure targets equal to at least one-half of one percent of a natural gas utility's revenues from its full service customers in the year prior to setting such targets; and
- Establish DSM program savings targets that are commensurate with program expenditures and expressed in terms of an amount of gas saved per unit of program expenditures.

20. The Commission's rules also address gas DSM program minimum annual expenditure targets in Rule 4753(h)(I):

The utility's annual expenditure target for DSM programs shall be, at a minimum, two percent of a natural gas utility's base rate revenues, (exclusive of commodity costs), from its sales customers in the 12-month calendar period prior to setting the targets, or one-half of one percent of total revenues from its sales customers in the

² Joint Application at ¶9.

12-month calendar period prior to setting the targets, whichever is greater.

A utility is also permitted to “propose an expenditure target in excess of two percent of base rate revenues.” *See* Rules 4753(h)(II) and (IV).

21. The Settling Parties agree that the Combined DSM Plan satisfies these required minimum annual expenditure targets.³ Specifically, the Settling Parties agree that the Combined DSM Plan meets the “whichever is greater” requirement of Rule 4753(h), as depicted on the table below:⁴

	BHCOG	BHGD
2016 Base Rate Rev. from Sales Customers*	\$20,639,084	\$42,198,634
2016 Total Sales Rev. from Sales Customers**	\$57,056,754	\$106,361,114
PUC Rule 4753(h)(I) Requirements		
0.5% of Total Rev. from Sales	\$285,284	\$531,306
2.0% of Total Base Rate Rev.	\$412,782	\$843,973
Calendar Year 2018		
Proposed Budget	\$2,241,700	\$2,275,200
Minimum Budget Requirement	\$412,782	\$843,973
Proposed Budget as a Percent of Base Rate Rev.	10.9%	5.4%

* Source FERC pg. 319

** Source FERC pg. 301

³ *See* Mr. Stoffel’s Direct Testimony, p. 10, l. 17 through p. 11, l. 5.

⁴ *Id.* at pp. 10-11, Table FCS-1.

22. The Settling Parties request that the Commission find that the Combined DSM Plan meets the requirements of Rule 4753(h).

B. Approval of Combined DSM Plan and the Joint Motion

23. The Settling Parties, as discussed in more detail below, agree that the Combined DSM Plan and Joint Motion, as filed with the Commission, are reasonable and should be approved by the Commission. This includes the proposed DSM programs, energy and peak savings goals, participation goals, budgets, cost-effectiveness, technical assumptions, the Evaluation, Measurement and Verification (“EM&V”) reporting schedule, and flexibility.

i. Approval of DSM Programs

24. The Companies, through the Joint Application and supporting testimony, presented a Combined DSM Plan that proposes a continuation of BHCOG’s current DSM plan, with some slight modifications. The Companies will offer six programs under the Combined DSM Plan: Residential Retrofit, Residential New Construction, Nonresidential Retrofit, Nonresidential New Construction, Income Qualified, and School-Based Energy Education. The table below shows which programs or components of programs are new to BHCOG and/or BHGD:

New Program or Component	BHCOG	BHGD
Residential New Construction Program		X
Residential Behavior Change Component (part of Residential Retrofit Program)		X
Nonresidential New Construction Program	X	X
Commercial Direct Install Component (part of Nonresidential Retrofit Program)		X
School-Based Energy Education Program		X

25. The Settling Parties agree that BHCOG’s current DSM plan has thus far been implemented successfully throughout BHCOG’s natural gas service territory, and that the energy

efficiency portfolio of the Combined DSM Plan is intended to serve all customer types, including residential and non-residential.

26. The Settling Parties acknowledge that the Non-Residential New Construction Program is a new addition to the DSM portfolio that, on its own, is not cost-effective, and that the Residential New Construction Program is also not cost-effective.

27. However, as discussed in more detail in the cost-effectiveness section below, the Settling Parties agree that it is appropriate to include these two programs within the portfolio in order to have a comprehensive DSM plan that provides a variety of savings opportunities for all customer classes.

ii. Approval of Energy and Peak Savings Goals.

28. As stated in Section 3.5 of the Combined DSM Plan, estimated savings were calculated at the measure level, including

[R]eviewing all current and future federal and local standards, incorporating historical participation data, and updating all engineering estimates with the most current industry standards. Additionally, sources for all engineering inputs for each measure were reviewed, and whenever possible, inputs were updated with best available Colorado-specific data from recently completed potential assessments by Xcel Energy and Colorado Springs

29. Savings goals under the Combined DSM Plan as presented in this Settlement Agreement are greater than the savings goals for each of the Companies under their current DSM plans. A comparison is reflected on the table below:⁵

⁵ See Mr. Dillon's Direct Testimony, p. 15, Table JD-3.

Company	2017 Net Energy Savings Goal (Dekatherms)	Annual Net Energy Savings Goal (Dekatherms) under Combined DSM Plan
BHCOG	56,473	75,530
BHGD	21,201	75,349

30. The Settling Parties agree that the savings goals in the Combined DSM Plan are reasonable and request that they be approved by the Commission.

iii. Approval of Participation Goals

31. As stated in Section 3.7 of the Combined DSM Plan, participation for each Company under the Combined DSM Plan was based on the number of their respective customers in 2016. Factors balanced in estimating each Company's participation goals under the Combined DSM Plan included the pool of eligible participants, the available budget, and past program performance. For the new Non-Residential New Construction Program, a similar program offered in their Iowa affiliate's territory was considered.⁶

32. The Combined DSM Plan anticipates having 3,702 residential participants for BHCOG and 2,980 residential participants for BHGD. These participation numbers are exclusive of the Behavioral Program. In addition, it is estimated there will be 1,078 nonresidential participants for BHCOG and 1,282 nonresidential participants for BHGD. Participation is set forth in the Combined DSM Plan on a program and component level basis in Chapters 4, 5, 6, 7, 8, and 9.⁷

⁶ See Mr. Dillon's Direct Testimony, p. 12, l. 19 through p. 13, l. 7.

⁷ *Id.* at p. 13, ll. 10-15.

33. The Settling Parties agree that the participation goals in the Combined DSM Plan are reasonable and request that they be approved by the Commission.

iv. Approval of Budgets

34. As discussed earlier in this Settlement Agreement, the budgets proposed in the Combined DSM Plan meet the requirements of Rule 4753(h)(I).

35. The Settling Parties agree that it is appropriate to propose budgets under the Combined DSM Plan that are more than the statutory minimums. Specifically, the Settling Parties agree that successful natural gas DSM programs rely on sustained education, marketing, trade allies and financial support.

36. The Settling Parties agree that the proposed budgets in the Combined DSM Plan, which exceed the statutory minimum and are an increase over the Companies' budgets for 2017, are reasonable and appropriate here, and should be approved. The budgets in the Combined DSM Plan, as compared to 2017, are in the table below:

Company	2017	2018	2019	2020
BHCOG	\$1,953,400	\$2,241,700	\$2,353,900	\$2,334,800
BHGD	\$783,726	\$2,275,200	\$2,410,200	\$2,387,500

37. The Combined DSM Plan maintains funding for BHCOG at about the same level as in previous years. The proposed funding for BHGD has been increased from the minimum level required by Commission rules to achieve parity with the BHCOG programs. In addition, the installation of DSM measures in BHGD's mountain areas tends to be more expensive than in other parts of the state.

38. The estimated monthly DSMCA charge in 2018 under the Combined DSM Plan for the Companies' residential and small commercial customers will also be better aligned:

RESIDENTIAL CUSTOMER DSMCA COMPARISON				
	Current Average Monthly DSMCA Amount	Current Percentage of Average Bill	Estimated 2018 Average Monthly DSMCA Amount	Estimated 2018 Percentage of Average Bill
BHCOG	\$1.87	3.23%	\$2.17	3.72%
BHGD Rate Area 1	\$0.75	0.92%	\$1.99	2.40%
BHGD Rate Area 2	\$0.06	0.11%	\$1.05	1.95%
SMALL COMMERCIAL CUSTOMER DSMCA COMPARISON				
	Current Average Monthly DSMCA Amount	Current Percentage of Average Bill	Estimated 2018 Average Monthly DSMCA Amount	Estimated 2018 Percentage of Average Bill
BHCOG	\$9.28	9.18%	\$9.39	9.28%
BHGD Rate Area 1	\$1.46	1.21%	\$2.51	2.06%
BHGD Rate Area 2	(\$0.93)	(1.05%)	(\$0.69)	(0.78%)

39. Notably, with respect to BHGD's budget, the Income-Qualified Program portion of the budget is \$917,600 for 2018, \$974,100 for 2019, \$965,000 for 2020.⁸ The Settling Parties acknowledge that this represents a significant portion of BHGD's overall budget, and a significant, but necessary increase, from the Income-Qualified budget under BHGD's current DSM plan, which totals \$251,149 for 2017.⁹

⁸ See Mr. Dillon's Direct Testimony, p. 16, Table JD-5.

⁹ See Decision No. C16-0378 (issued in Proceeding No. 16A-0253G) approving BHGD's 2017 DSM Plan, as reflected in the Verified Combined Petition and Application filed in that Proceeding.

40. Residential customers in BHGD’s service territory experience high home heating costs and high cost of living expenses that can be expected when residing in mountain communities. The costs to install energy efficiency measures in BHGD’s service territory, particularly in low-income customers’ homes that often are a source of health and safety and code violations, also are high. At the same time, the service territory for BHGD historically has only received budgets designed to meet, but not exceed, the requirements of Rule 4753(h)(I). At the same time, however, reduced federal budgets have reduced access to federal weatherization programs.

41. Since 2012, EOC has administered BHGD’s low-income DSM programs. EOC has worked since that time to expand its Colorado Affordable Residential Energy (“CARE”) Program into the service territory. In addition, EOC has used CARE for BHCOG’s service territory, for which EOC began administering low-income DSM in mid-2016. Through CARE, EOC works with nonprofit agencies and leverages utility prescriptive rebates, private funding, and funding from the community to install more weatherization measures in single family homes. EOC has experienced tremendous demand for low-income services through CARE. The proposed Income-Qualified Program will allow EOC to assist more residential customers with CARE measures, and to further expand the type of assistance they can provide to customers. For example, customers may qualify for both increased insulation and rebates toward a safe, efficient heating system, when in previous program years they would often have needed to choose between either measure. Such a “whole house” weatherization program will have a major impact on customers’ energy bills, and result in significant energy savings for low-income customers.

v. Approval of Cost-Effectiveness, including the Joint Motion

42. The Settling Parties agree that the Companies present overall cost-effective portfolios, with an mTRC of 1.19 for BHCOG and 1.17 for BHGD. As mentioned earlier in this Settlement Agreement, however, the Companies filed the Joint Motion which seeks a partial waiver of Rule 4753(f)(VI) in connection with the two programs under the Combined DSM Plan which do not satisfy the Rule's program-level mTRC requirement of 1.0 or greater: Residential New Construction and Nonresidential New Construction. The Settling Parties agree it is important to include both of these programs in the Combined DSM Plan.

43. The Residential New Construction Program seeks to promote construction of energy-efficient, single-family and multifamily homes by providing incentives to new home builders as described in the Combined DSM Plan. Notably, the cost-effectiveness of this program under the Combined DSM Plan is affected by several factors, including new building and appliance codes, as well as the low price of natural gas.¹⁰

44. As reflected in Mr. Dillon's Direct Testimony, with respect to the Residential New Construction Program, BHCOG has spent the last 4+ years gaining the support of builders through education and outreach efforts. By doing so, the builders are now engaged in building more efficient homes.¹¹ In fact, the builders are required to achieve a Home Energy Rating of 10% greater than local code. Without the rebate, the chances of the building practices falling back to code levels is increased, thus imposing higher operating costs on the homeowner. Removal of the Residential New Construction Program from the portfolio at a point when it is finally maturing and succeeding could result in less-efficient homes being built.

¹⁰ See Mr. Dillon's Direct Testimony, p. 24, ll. 1-6.

¹¹ *Id.* at p. 23, l. 21 through p. 24, l. 2.

45. Due to the low price of natural gas and the stricter building codes, the Nonresidential New Construction Program also does not pass the cost-effectiveness test. Nevertheless, the Settling Parties agree it is important to include this program in the Combined DSM Plan. By educating the architects and engineering firms on the most efficient measures available in the market, the Companies' commercial and industrial customers will benefit by having highly efficient measures designed and built into their new facilities.¹²

46. While the Combined DSM Plan is cost effective overall for both BHCOG and BHGD, the Companies' inclusion of the Residential New Construction and Nonresidential New Construction programs in the portfolio is to their detriment from an incentive perspective. This is because one component of the bonus calculation, per Rule 4754(III)(IV), is dependent upon the Dth saved per dollar expended. A more cost effective program would have greater Dth saved per dollar expended which would increase the calculated bonus amount. A less cost effective program would have fewer Dth saved per dollar expended, which would reduce the calculated bonus amount.

47. For this reason, and the reasons stated above and in the testimony submitted by the Companies' witnesses in this Proceeding, the Settling Parties agree that the requested partial waiver of Rule 4753(f)(VI) as it applies to the Residential New Construction Program and the Nonresidential New Construction Program is appropriate. The Settling Parties agree it is important to have a complete DSM portfolio, which would not be the case if these two programs were eliminated.

¹² *Id.* at p. 24, ll. 7-12.

vi. Approval of Technical Assumptions

48. The primary technical assumptions for the Combined DSM Plan include: Net-to-Gross Ratios, Avoided Gas Capacity Costs, Discount and Inflation Rates, Gas Energy Costs, Avoided Variable O&M Costs, and Lost Revenue Calculations. The Settling Parties agree that the Combined DSM Plan's technical assumptions are supported by the Joint Application and the testimony and attachments submitted by the Companies' witnesses in this Proceeding, including the Combined DSM Plan.

vii. Approval of EM&V Reporting Schedule

49. Rule 4755 requires that each program be evaluated at least once per the DSM plan period. The Settling Parties agree that the EM&V schedule set forth in Section 1.4 of the Combined DSM Plan meets the requirements of Rule 4755 and should be approved.

viii. Approval of Flexibility

50. Commission Rule 4753(k) allows each Company to "spend more than the annual expenditure target established by the Commission up to twenty-five percent over the target, without being required to submit a proposed DSM plan amendment." The Settling Parties agree that each Company should also have the flexibility to, within the Combined DSM Plan and consistent with the requirements of Commission Rule 4757(a), adjust incentive amounts and measures as necessary to administer the Combined DSM Plan. Any such additional spending will continue to be subject to the cost-effectiveness considerations outlined in Commission Rules 4750 *et seq.*

ix. Approval of Estimated Rate Impact

51. The Settling Parties are not seeking approval of the next DSMCA rider (which would not be effective until July 1, 2018) through this Settlement Agreement. However, the

Settling Parties agree that the DSMCA Rider for the April 1, 2018 filing, based on currently available information, as well as the monthly bill impact, is appropriately estimated as reflected in Tables FCS-5, FCS-6 and FCS-7 of Mr. Stoffel's Direct Testimony (replicated below):¹³

Table FCS-5: BHCOG 2018 Estimated Rate Impact

Customer Class	Current DSMCA Factor¹	Estimated 2018 DSMCA Factor	Avg. Monthly Bill Increase/(Decrease)	% Monthly Bill Increase/(Decrease)
Residential	8.77%	10.14%	\$0.30	0.51%
Non-residential	27.35%	27.67%	\$0.11	0.11%

Note¹: Current DSMCA Factor approved in Proceeding No. 17A-0213G

Note²: Represents average monthly bill increase for Small Commercial customer

Table FCS-6: BHGD 2018 Estimated Rate Impact for Base Rate Area 1

Customer Class	Current DSMCA Factor¹	Estimated 2018 DSMCA Factor	Avg. Monthly Bill Increase/(Decrease)	% Monthly Bill Increase/(Decrease)
Residential	2.49%	6.61%	\$1.23	1.52%
Non-residential	3.26%	5.60%	\$1.05	0.88%

Note¹: Current DSMCA Factor approved in Proceeding No. 17AL-0218G

Note²: Represents average monthly bill increase for Small Commercial customer

Table FCS-7: BHGD 2018 Estimated Rate Impact for Base Rate Area 2

Customer Class	Current DSMCA Factor¹	Estimated 2018 DSMCA Factor	Avg. Monthly Bill Increase/(Decrease)	% Monthly Bill Increase/(Decrease)
Residential	0.24%	4.39%	\$0.98	1.85%
Non-residential	-2.53%	-1.86%	\$0.24	0.27%

Note¹: Current DSMCA Factor approved in Proceeding No. 17AL-0218G

Note²: Represents average monthly bill increase for Small Commercial customer

¹³ The notes for each Table have changed as the proposed factors were approved by the Commission to go into effect on July 1, 2017.

52. The Settling Parties agree these are reasonable impacts in light of the energy efficiency opportunities made available to the customers of the Companies under the Combined DSM Plan.

C. Approval of DSMCA Tariffs, as Modified

53. The Companies proposed updates and clarifying changes to the DSMCA Tariffs of both BHCOG and BHGD, which changes were reflected in redline in Attachments FCS-1 (BHCOG) and FCS-3 (BHGD) to Mr. Stoffel's Direct Testimony, with the clean versions found in Attachments FCS-2 (BHCOG) and FCS-4 (BHGD). The Settling Parties agree to all proposed DSMCA tariff changes, with one exception. The most substantive proposed change provides for the utility to recover cumulative lost revenues resulting from energy efficiency programs between rate cases.¹⁴ Through negotiation, the Settling Parties have agreed to remove this change.

54. To reflect removal of the cumulative lost revenue component from the DSMCA Tariff revisions, as agreed, Attachments 2 (BHCOG) and 3 (BHGD) to this Settlement Agreement are redlined versions of the "clean" DSMCA Tariffs (Attachments FCS-2 and FCS-4). New clean versions of the DSMCA Tariffs are found in Attachments 4 (BHCOG) and 5 (BHGD) to this Settlement Agreement.

55. The Settling Parties request approval of the changes to the BHCOG and BHGD DSMCA Tariffs and request that the Commission's decision in this Proceeding allow the Companies to file their compliance tariffs in the form set forth in Attachment 4 (for BHCOG) and in Attachment 5 (for BHGD), on not less than two business days' notice after issuance of a final order approving this Settlement Agreement.

¹⁴ See Mr. Stoffel's Direct Testimony, p. 22, ll. 12-14.

D. Testimony and Settlement Hearing

56. The motion seeking approval of this Settlement Agreement includes a request that the ALJ hold any hearing on this Settlement Agreement on the day of hearing that is currently scheduled for September 26, 2017. All Settling Parties agree to sponsor a witness to testify in support of the Settlement Agreement at the hearing.

57. Any issue not directly addressed herein should be determined consistent with the Joint Application, the Combined DSM Plan, the Joint Motion, associated testimonies and attachments, and this Settlement Agreement.

III. GENERAL TERMS AND CONDITIONS

58. 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 among 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.

59. 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 Settlement 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 Parties 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.

60. 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.

61. 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 and for the reasons stated. 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.

62. 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.

63. 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

For the reasons stated above, the Settling Parties respectfully request that the Commission enter an order granting the Joint Application and Joint Motion consistent with 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: August 24, 2017.

**BLACK HILLS/COLORADO GAS
UTILITY COMPANY, LP D/B/A
BLACK HILLS ENERGY AND
BLACK HILLS GAS DISTRIBUTION,
LLC D/B/A BLACK HILLS ENERGY**

By: 
Fredric C. Stoffel
Director, Regulatory
Black Hills Corporation
1515 Wynkoop Street, Suite 500
Denver, CO 80202
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Email: Fred.Stoffel@blackhillscorp.com

Approved as to form:

By: 
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Associate General Counsel
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**Counsel for Black Hills/Colorado Gas
Utility Company, LP and Black Hills
Gas Distribution, LLC**

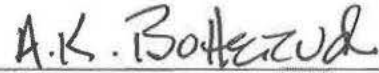
**TRIAL STAFF OF THE COLORADO
PUBLIC UTILITIES COMMISSION**

By: 

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Approved as to form:

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Attorney General

By: 

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First Assistant Attorney General
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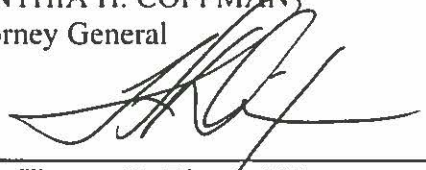
**Counsel for Trial Staff of the Public
Utilities Commission**

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Approved as to form:

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Attorney General

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**Counsel for the Office of Consumer
Counsel**

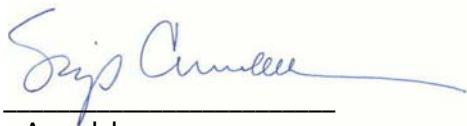
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ATTORNEYS FOR ENERGY OUTREACH COLORADO

ENERGY OUTREACH COLORADO



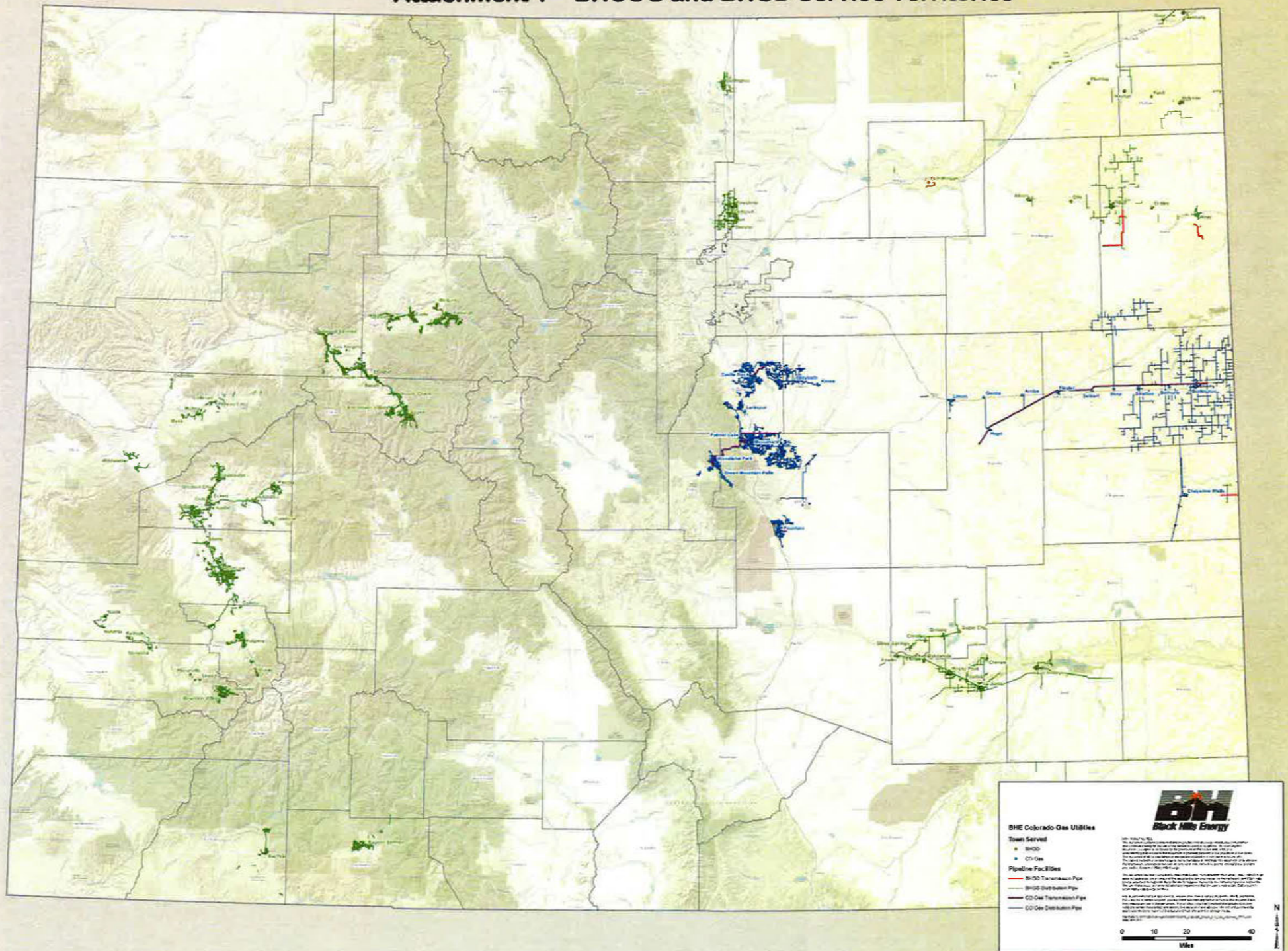
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225 E. 16th Ave. Suite 200
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Fax: (303) 825-0765
Email: sarnold@EnergyOutreach.org

CERTIFICATE OF SERVICE

I hereby certify that on August 24, 2017, the foregoing document was served via electronic filing with the Commission and served on those parties shown on the Commission's Certificate of Service accompanying such filing.

/s/ *Elaine Hegler*

Attachment 1 - BHCOC and BHGD Service Territories



Colorado Public Utilities Commission
Black Hills/Colorado Gas Utility Company, LP
d/b/a Black Hills Energy

Colo. PUC No. 3
First Revised Sheet No. 64
Cancels Original Sheet No. 64

General Service Rules and Regulations

28. GAS DEMAND-SIDE MANAGEMENT COST ADJUSTMENT (G-DSMCA)

A. Gas Demand-Side Management Cost Adjustment (G-DSMCA)

All sales rate schedules for natural gas service are subject to a Gas Demand-Side Management Cost Adjustment ("G-DSMCA") designed to recover direct and indirect costs of gas Demand-Side Management Programs ("DSM Programs") in accordance with a Commission-approved gas Demand-Side Management Plan, Rules 4750 through 4760 of the Commission's Rules Regulating Gas Utilities and Pipeline Operators, 4 Code of Colorado Regulations 723-4 ("Gas DSM Rules"), and this Section 28. As specified in the Gas DSM Rules and this Section 28, the G-DSMCA allows for prospective recovery of approved costs of DSM Programs within the expenditure target approved by the Commission, in order to provide for funding of the Company's DSM Programs, as well as recovery of Deferred DSMCA Costs and, if approved by the Commission, a G-DSM bonus. The G-DSMCA Factor shall be separately calculated and applied to the Company's base rates for all applicable rate schedules as set forth on Sheet No. 68.

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B. G-DSMCA Filings

The G-DSMCA Factor is set on an annual basis, and collected from July 1 through June 30. Each April 1st, the Company will file an application or advice letter to revise the G-DSMCA Factor. The Company will include in its annual G-DSMCA filing all pertinent information and supporting documentation as required by the Commission's Rules, and as specifically set forth in the Gas DSM Rules.

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Advice Letter No.

/s/ Fredric C. Stoffel
Signature of Issuing Officer
Director, Regulatory

Issue Date:

Decision No.

Effective Date:

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Black Hills/Colorado Gas Utility Company, LP
d/b/a Black Hills Energy

Colo. PUC No. 3
First Revised Sheet No. 65
Cancels Original Sheet No. 65

General Service Rules and Regulations

28. GAS DEMAND-SIDE MANAGEMENT COST ADJUSTMENT (G-DSMCA) (cont.)

B. G-DSMCA Filings (cont.)

If the projected DSM Program costs change from those used to calculate the currently effective G-DSMCA cost or if the Company's Deferred DSMCA Cost balance increases or decreases sufficiently, the Company may file an application to revise its currently effective G-DSMCA Factor to reflect such changes, provided that the resulting change to the G-DSMCA Factor equates to a base rate change of at least one cent (\$0.01) per Mcf or Dth. The Company has the burden of proof to justify any interim G-DSMCA filings and the Commission has the discretion to consolidate the interim G-DSMCA filing with the next regularly scheduled annual G-DSMCA filing.

C. Definitions

1. *G-DSM Bonus*. The amount of bonus approved by the Commission in the Company's annual G-DSM Bonus application, if any, as set forth in Gas DSM Rule 4760.
2. *DSM Period*. DSM Period means a calendar year of a DSM Plan. While the Company's DSM Plan generally covers three years, unless otherwise specified by the Commission, each calendar year of a DSM Plan is considered to be the DSM Period.
3. *DSM Plan*. DSM Plan means the Commission-approved DSM programs, goals, and budgets over a specified period, generally considered in one year increments, as may be proposed by the utility.

Advice Letter No.

/s/ Fredric C. Stoffel
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Colo. PUC No. 3
 First Revised Sheet No. 66
 Cancels Original Sheet No. 66

General Service Rules and Regulations

28. GAS DEMAND-SIDE MANAGEMENT COST ADJUSTMENT (G-DSMCA) (cont.)

C. Definitions (cont.)

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| <p>4. <i>DSM Program.</i> DSM Program means any combination of DSM measures, information and services offered to customers to reduce natural gas usage set forth in the Company's DSM Plan as approved by the Commission.</p> | <p>T
D</p> |
| <p>5. <i>G-DSMCA Factor.</i> The G-DSMCA Factor for each service class shall be a percentage adjustment applicable to all base rates for customers receiving service under the applicable rate schedules. The G-DSMCA factor shall be separately calculated and applied to the utility sales gas base rate schedules of residential and non-residential customers. The DSMCA Factor shall be calculated using the formula set forth in Section 28.D below.</p> | <p>D,N</p> |
| <p>6. <i>G-DSMCA Period.</i> The G-DSMCA shall take effect July 1 of each year for a period of 12 months.</p> | <p>M
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| <p>7. <i>Interest on Under- or Over-Recovery.</i> The amount of net interest accrued on the average monthly balance (whether positive or negative), is determined by multiplying the monthly balance by an interest rate equal to the Company's Commission-authorized after-tax weighted average costs of capital.</p> | <p></p> |

Advice Letter No.

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Colo. PUC No. 3
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General Service Rules and Regulations

28. GAS DEMAND-SIDE MANAGEMENT COST ADJUSTMENT (G-DSMCA) (cont.)

D. G-DSMCA Factor.

1. *G-DSMCA Factor Calculation.* The G-DSMCA Factor shall be calculated consistent with Commission Rule 4758, using the following formula:

$$\text{G-DSMCA Factor} = \frac{(\text{Current DSMCA Costs} + \text{G-DSM Bonus} + \text{Deferred DSMCA Cost} + \text{LR Value})}{(\text{CFCST} * \text{CUSTSRV} + \text{SFCST} * \text{BASECOM})}$$

where

- CFCST is the forecast number of customers for the next DSM Period;
- CUSTSRV is the monthly service charge;
- SFCST is the forecasted gas sales quantity for the rate schedule in the next DSM Period; and
- BASECOM is the base commodity rate.
- The G-DSMCA Factor will also include the current G-DSM Bonus plus any adjustment necessary to previously approved G-DSM Bonuses.
- Current DSMCA Costs means budgeted costs of DSM Programs for the DSM Period at the time of the DSMCA annual filing, as approved by the Commission in order to provide for funding of the Company's DSM Programs.
- Deferred DSMCA Cost is the positive or negative difference between the actual cost of DSM Programs, including interest, and the amounts collected from customers under the applicable rate schedules during the prior G-DSMCA Period.
- LR Value is the sum of multiplying the dollar per therm value, as approved by the Commission, times the annual therms lost from all programs executed during the program year under consideration, ~~plus the LR amounts from previous DSM Periods since the last approved base rate proceeding.~~

2. *Prudence review and adjustment of G-DSM bonus.* The G-DSMCA factor includes the current G-DSM bonus plus any adjustment necessary to previously approved G-DSM bonuses. If the Commission finds that the actual performance varies from performance values used to calculate the G-DSM bonus, then an adjustment shall be made to the amount of G-DSM bonus award. Any true-up in the G-DSM bonus will be implemented on a prospective basis.

Advice Letter No.

/s/ Fredric C. Stoffel
 Signature of Issuing Officer
 Director, Regulatory

Issue Date:

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SALES SERVICE SCHEDULE OF RATES
DEMAND SIDE MANAGEMENT COST ADJUSTMENT

1. Demand-Side Management Cost Adjustment (DSMCA)

All sales rate schedules for natural gas service are subject to a Demand-Side Management Cost Adjustment (“DSMCA”) designed to recover direct and indirect costs of gas Demand-Side Management Programs (“DSM Programs”) in accordance with a Commission-approved gas Demand-Side Management Plan, Rules 4750 through 4760 of the Commission’s Rules Regulating Gas Utilities and Pipeline Operators, 4 Code of Colorado Regulations 723-4 (“Gas DSM Rules”), and these Sections 1-4. As specified in the Gas DSM Rules and these Sections 1-4, the DSMCA allows for prospective recovery of approved costs of DSM Programs within the expenditure target approved by the Commission, in order to provide for funding of the Company’s DSM Programs, as well as recovery of Deferred DSMCA Costs and, if approved by the Commission, a DSM bonus. The DSMCA Factor shall be separately calculated and applied to the Company’s base rates for all applicable rate schedules as set forth on Sheet Nos. 7 through 7I.

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2. DSMCA Filing

The DSMCA Factor is set on an annual basis, and collected from July 1 through June 30. Each April 1st, the Company will file an application or advice letter to revise the DSMCA Factor. The Company will include in its annual DSMCA filing all pertinent information and supporting documentation as required by the Commission’s Rules, and as specifically set forth in the Gas DSM Rules.

If the projected DSM Program costs change from those used to calculate the currently effective DSMCA cost or if the Company’s Deferred DSMCA Cost balance increases or decreases sufficiently, the Company may file an application to revise its currently effective DSMCA Factor to reflect such changes, provided that the resulting change to the DSMCA Factor equates to a base rate change of at least one cent (\$0.01) per Mcf or Dth. The Company has the burden of proof to justify any interim DSMCA filings and the Commission has the discretion to consolidate the interim DSMCA filing with the next regularly scheduled annual DSMCA filing.

3. Definitions

3.1 *DSM Bonus*. The amount of bonus approved by the Commission in the Company’s annual DSM Bonus application, if any, as set forth in Gas DSM Rule 4760.

3.2 *DSM Period*. DSM Period means a calendar year of a DSM Plan. While the Company’s DSM Plan generally covers three years, unless otherwise specified by the Commission, each calendar year of a DSM Plan is considered to be the DSM Period.

3.3 *DSM Plan*. DSM Plan means the Commission-approved DSM programs, goals, and budgets over a specified period, generally considered in one year increments, as may be proposed by the utility.

3. Definitions (cont.)

3.4 DSM Program. DSM Program means any combination of DSM measures, information and services offered to customers to reduce natural gas usage set forth in the Company's DSM Plan as approved by the Commission.

3.5 DSMCA Factor. The DSMCA Factor for each service class shall be a percentage adjustment applicable to all base rates for customers receiving service under the applicable rate schedules. The DSMCA factor shall be separately calculated and applied to the utility sales gas base rate schedules of residential and non-residential customers. The DSMCA Factor shall be calculated using the formula set forth in Section 4 below.

3.6 DSMCA Period. The DSMCA shall take effect July 1 of each year for a period of 12 months.

3.7 Interest on Under- or Over-Recovery. The amount of net interest accrued on the average monthly balance (whether positive or negative), is determined by multiplying the monthly balance by an interest rate equal to the Company's Commission-authorized after-tax weighted average costs of capital.

4. DSMCA Factor

4.1 DSMCA Factor Calculation. The DSMCA Factor shall be calculated consistent with Commission Rule 4758, using the following formula:

$$\text{DSMCA Factor} = \frac{(\text{Current DSMCA Costs} + \text{DSM Bonus} + \text{Deferred DSMCA Cost} + \text{LR Value})}{(\text{CFCST} * \text{CUSTSRV} + \text{SFCST} * \text{BASECOM})}$$

where

- CFCST is the forecast number of customers for the next DSM Period;
- CUSTSRV is the monthly service charge;
- SFCST is the forecasted gas sales quantity for the rate schedule in the next DSM Period; and
- BASECOM is the base commodity rate.
- The DSMCA Factor will also include the current DSM Bonus plus any adjustment necessary to previously approved DSM Bonuses.
- Current DSMCA Costs means budgeted costs of DSM Programs for the DSM Period at the time of the DSMCA annual filing, as approved by the Commission in order to provide for funding of the Company's DSM Programs.

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SALES SERVICE SCHEDULE OF RATES
DEMAND-SIDE MANAGEMENT COST ADJUSTMENT

4. DSMCA Factor (cont.)

- Deferred DSMCA Cost is the positive or negative difference between the actual cost of DSM Programs, including interest, and the amounts collected from customers under the applicable rate schedules during the prior DSMCA Period.
- LR Value is the sum of multiplying the dollar per therm value, as approved by the Commission, times the annual therms lost from all programs executed during the program year under consideration. ~~plus the LR amounts from previous DSM Periods since the last approved base rate proceeding.~~

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4.2 Prudence review and adjustment of DSM bonus. The DSMCA factor includes the current DSM bonus plus any adjustment necessary to previously approved DSM bonuses. If the Commission finds that the actual performance varies from performance values used to calculate the DSM bonus, then an adjustment shall be made to the amount of DSM bonus award. Any true-up in the DSM bonus will be implemented on a prospective basis.

Colorado Public Utilities Commission
Black Hills/Colorado Gas Utility Company, LP
d/b/a Black Hills Energy

Colo. PUC No. 3
First Revised Sheet No. 64
Cancels Original Sheet No. 64

General Service Rules and Regulations

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B. G-DSMCA Filings

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Advice Letter No.

/s/ Fredric C. Stoffel
Signature of Issuing Officer
Director, Regulatory

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B. G-DSMCA Filings (cont.)

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General Service Rules and Regulations

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28. GAS DEMAND-SIDE MANAGEMENT COST ADJUSTMENT (G-DSMCA) (cont.)

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3. Definitions (cont.)

3.4 DSM Program. DSM Program means any combination of DSM measures, information and services offered to customers to reduce natural gas usage set forth in the Company's DSM Plan as approved by the Commission.

3.5 DSMCA Factor. The DSMCA Factor for each service class shall be a percentage adjustment applicable to all base rates for customers receiving service under the applicable rate schedules. The DSMCA factor shall be separately calculated and applied to the utility sales gas base rate schedules of residential and non-residential customers. The DSMCA Factor shall be calculated using the formula set forth in Section 4 below.

3.6 DSMCA Period. The DSMCA shall take effect July 1 of each year for a period of 12 months.

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where

- CFCST is the forecast number of customers for the next DSM Period;
- CUSTSRV is the monthly service charge;
- SFCST is the forecasted gas sales quantity for the rate schedule in the next DSM Period; and
- BASECOM is the base commodity rate.
- The DSMCA Factor will also include the current DSM Bonus plus any adjustment necessary to previously approved DSM Bonuses.
- Current DSMCA Costs means budgeted costs of DSM Programs for the DSM Period at the time of the DSMCA annual filing, as approved by the Commission in order to provide for funding of the Company's DSM Programs.

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SALES SERVICE SCHEDULE OF RATES
DEMAND-SIDE MANAGEMENT COST ADJUSTMENT

4. DSMCA Factor (cont.)

- Deferred DSMCA Cost is the positive or negative difference between the actual cost of DSM Programs, including interest, and the amounts collected from customers under the applicable rate schedules during the prior DSMCA Period.
- LR Value is the sum of multiplying the dollar per therm value, as approved by the Commission, times the annual therms lost from all programs executed during the program year under consideration.

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4.2 Prudence review and adjustment of DSM bonus. The DSMCA factor includes the current DSM bonus plus any adjustment necessary to previously approved DSM bonuses. If the Commission finds that the actual performance varies from performance values used to calculate the DSM bonus, then an adjustment shall be made to the amount of DSM bonus award. Any true-up in the DSM bonus will be implemented on a prospective basis.