

BLACK HILLS POWER
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30000	JKB	8/22
J4000		
J6000		

August 21, 2003

Mr. Joel K. Bladow
Regional Manager
Rocky Mountain Region
Western Area Power Administration
P.O. Box 3700
Loveland, CO 80539-3003

RECEIVED
08-22-03

Regarding: Comments to WACM Proposed Rate Adjustment for Transmission
Ancillary Services – Effective January 2004

Dear Mr. Bladow:

Black Hills Power, Inc. (BHP) hereby submits the following comments in regards to Western Area Power Administration's proposed rate for Regulation and Frequency Response Service, L-AS3.

BHP operates as a sub-area within the Western Area Colorado Missouri (WACM) Control Area. BHP monitors the real-time power flow into and out of its sub-area, real-time generation data, and real-time scheduling data. Closely monitoring this information allows BHP to generate and monitor an Area Control Error (ACE) signal. This ACE signal indicates the real-time difference in BHP's energy resources and obligations. The ACE, when integrated over one hour, is a close approximation of the "Hourly Energy Imbalance" that WACM calculates using revenue quality meters at the end of every month.

Prior to 1986, BHP ran a closed loop Automatic Generation Control System (AGC). BHP and WACM negotiated and entered into an Agreement (Contract No. 91-LAO-624) whereby WACM would provide regulation and frequency response for BHP at an agreed upon cost. This agreement provided for a one-year termination clause. WACM exercised the termination clause in the fall of 2002 giving BHP one-year to continue receiving this service from WACM at the contract price. The termination of this agreement will increase BHP's costs from approximately \$120,000/year to \$720,000/year. An increase of roughly 600%.

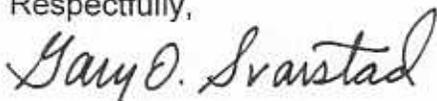
WACM's proposed "Rate Adjustment", as currently written, does not recognize the benefit or allow for any incentive to those entities that provide some degree of their own regulation. Only those entities that operate a closed loop AGC system will not be subject to the proposed increased rates.

BHP is of the opinion that there is a significant benefit to WACM for the manner in which BHP operates its sub-area within WACM's Control Area. This is accomplished by the following:

- * BHP has an ACE signal that is monitored in real-time and adjusts its generation to maintain minimal energy imbalances. Most entities within WACM's Control Area do not have an ACE signal.
- * BHP generation is monitored and controlled by a BHP System Dispatcher. Most entities do not have generation that they control.
- * BHP has a 24X7 System Dispatcher monitoring the ACE signal and controlling the ACE in an "Open-Loop" fashion. Many entities do not have 24X7 dispatchers.

WACM's Control Area would be adversely affected, if BHP were to do away with its ACE signal and no longer adjusted its generation to maintain minimal energy imbalances. BHP acknowledges that regulation and frequency response is the responsibility of the Control Area and there is a cost associated with this service. However BHP does mitigate a significant portion of this cost impact to WACM by operating its sub-area utilizing an ACE signal. Therefore BHP requests that WACM re-evaluate their proposed rate adjustment and charge BHP a discounted rate because BHP does adjust its generation and incurs costs to minimize energy imbalances within the WACM Control Area.

Respectfully,



Gary O. Svarstad
Manager, System Control

CC Mike Fredrich, BHP
Jackie Sargent, BHP