

Black Hills Energy – Colorado Electric Non-Intermittent Resource Solicitation

April 1, 2009
Pre-Bid Conference
Pueblo, Colorado

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Meeting Overview

- Welcome and Introductions
- Logistics
- Meeting Objective
 - Provide potential bidders an overview of the Black Hills/Colorado Electric Utility Company, LP - Request for Proposal and the associated bidding process

Agenda

- Black Hills Corporation Overview
- ERP Summary
- Schedule
- RFP
- Model PPA
- Transmission System
- Proposal Requirements
- Evaluation Process
- Contact Information

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Black Hills Corporation

- Black Hills Corporation (BHC) is a diversified energy company based in Rapid City, South Dakota with corporate offices in Golden, Colorado and Omaha, Nebraska
- BHC's subsidiaries are classified within two major business groups – Utilities and Non-regulated Energy
- The utility companies serve 750,000 natural gas and electric customers in Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota and Wyoming
- The non-regulated energy businesses construct and operate power plants which generate wholesale electricity, produce natural gas, oil and coal, and market energy

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Black Hills Corporation

- Black Hills Energy is now a trade name for the assets acquired from Aquila
- Black Hills Energy provides electric and natural gas service to customers in Colorado, Iowa, Kansas and Nebraska
- BH/Colorado Electric Utility Company, LP (BHCE) is the Black Hills Energy electric utility in southeastern Colorado serving approximately 92,000 electric customers

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BHCE ERP Summary

- Filed on August 5, 2008
 - Identified the need for 346 MW of capacity by January 1, 2012
- Supplement filed October 21, 2008
 - Included RFPs and Model PPAs
- Hearing conducted January 2009
- Phase I order issued February 24, 2009

Phase I Decision Summary

- No Phase II required
- Company may construct and own 2 LMS 100 combustion turbines
- Remaining capacity need must be acquired via competitive bidding
 - Company's IPP affiliate may bid

Phase I Decision Summary

- Short-term PPAs should be taken into account in the evaluation of similar priced portfolios
- Independent Evaluator will be required to monitor competitive acquisition process

Events Subsequent to Phase I Order

- Joint Notice of PSCo's Updated Load Forecast filed March 19, 2009
- Notice states that PSCo is now willing to discuss a potential purchased power bridge of up to 200 MW beginning January 1, 2012 through May 31, 2013

Phase I RRR Decision

- The following dates have been affected
 - RFP Confidential Summary Report
 - Due **7/1/2009** (Was 6/22/2009)
 - Bid evaluation target completion date
 - **8/8/2009** (Was not previously specified)
 - Execution of PPA(s)
 - **12/8/2009** (Was 10/8/2009)
- Other issues addressed in the RRR decision will be discussed later in this presentation

RFP Schedule

Activity	Due Date
Issue RFP & Model PPA	March 25, 2009
CPUC RRR Decision	March 31, 2009
Pre-Bid Conference	April 1, 2009
Notice of Intent to Bid	May 1, 2009
Bids Due	June 8, 2009
RFP Summary Report	July 1, 2009*
Evaluation Complete*	August 8, 2009*
PPAs Executed	December 8, 2009*

* Indicates schedule change from RRR

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Request for Proposals

- Resource Need – 175 to 200 MW
- Eligible Resources
 - Any non-intermittent dispatchable resource with the ability to operate at or above a 95% capacity factor
 - Existing or newly constructed resources
 - Unit contingent
 - System firm

Request for Proposals

- Bid Criteria
 - Maximum capacity from any single generating unit limited
 - 100 MW or less
 - Greater than 100 MW must have backup to count capacity above 100 MW
 - Contract length
 - 5-10 years for existing resources
 - 5-20 years for new resources

Request for Proposals

- Bid Criteria (continued)
 - Bidder must procure and manage fuel supply including all fuel transportation costs – must demonstrate firmness
 - Bidder must secure transmission to deliver power to BHCE system
 - Estimated costs for delivery to BHCE system including all interconnection costs must be included in bid
 - The Company is not currently a network transmission customer of a third-party transmission provider
 - Resource need is on January 1, 2012

Request for Proposals

- Bid Criteria (continued)
 - Bids should be fixed price for the first year
 - Capacity prices
 - May remain fixed for term of the PPA, or
 - May change at a known, non-indexed rate
 - 1.5% annually for example
 - Energy prices
 - May remain flat for the term of the PPA, or
 - May change at a known and specified rate, or
 - May be adjusted according to a known, published and widely recognized index

Model PPA

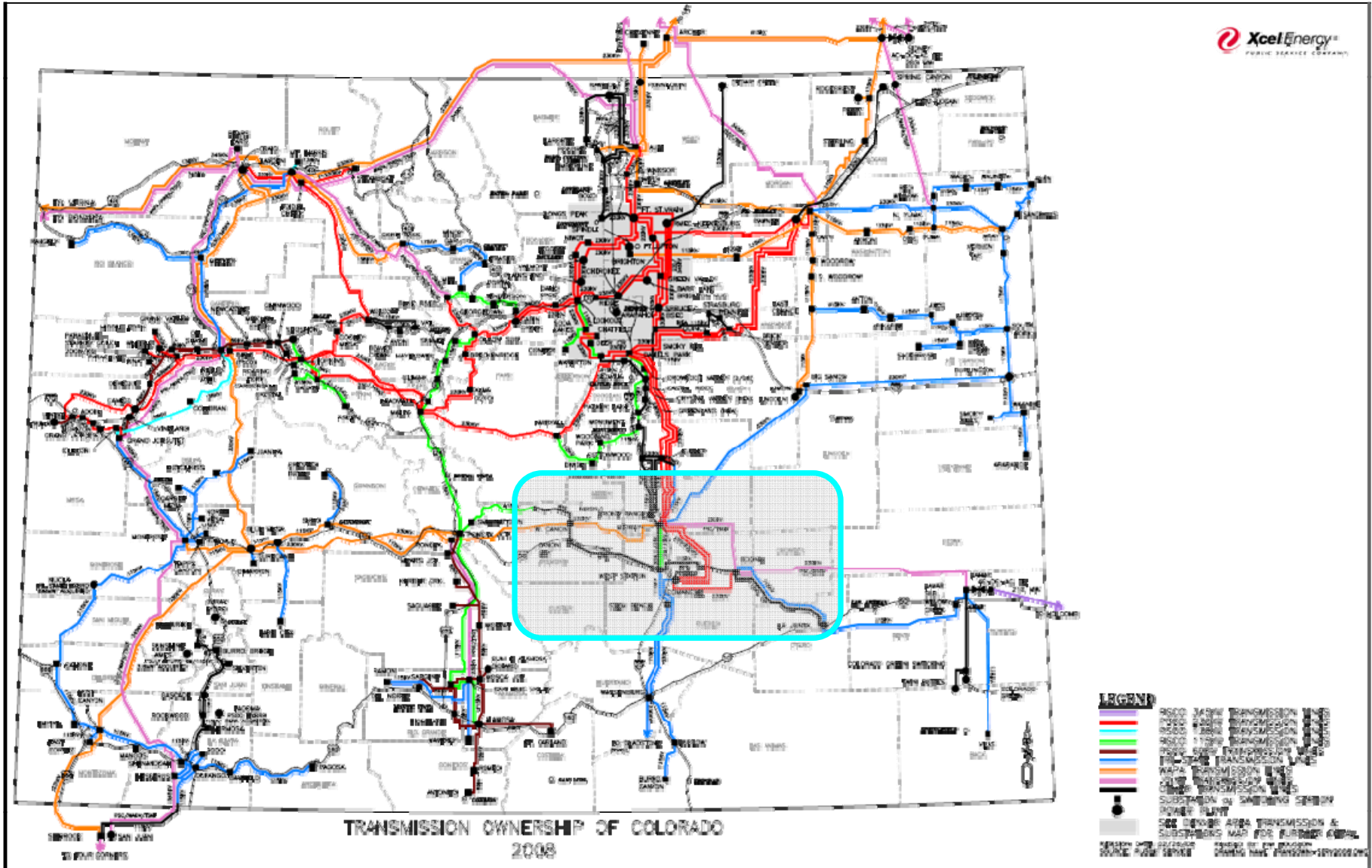
- Bidders are to bid to the BHCE Model PPA
- Specific exceptions must be clearly identified
- Cost impacts associated with exceptions must be specified
- Contract changes may disadvantage a bidder depending upon the change
 - Refer to CPUC Decision C09-0004

Model PPA

- Model PPA assumes **new construction** of natural gas-fired facilities interconnected **directly** with BHCE's transmission system
- Proposals for an existing resource supply or a system firm PPA should propose modifications to the contract terms as applicable

BHCE Transmission System

- The transmission system follows the Arkansas River Valley from the Royal Gorge west of Cañon City to La Junta
- Major load centers are Pueblo, Cañon City, and Rocky Ford
- The transmission system consists of 194 miles of 115-kV transmission lines

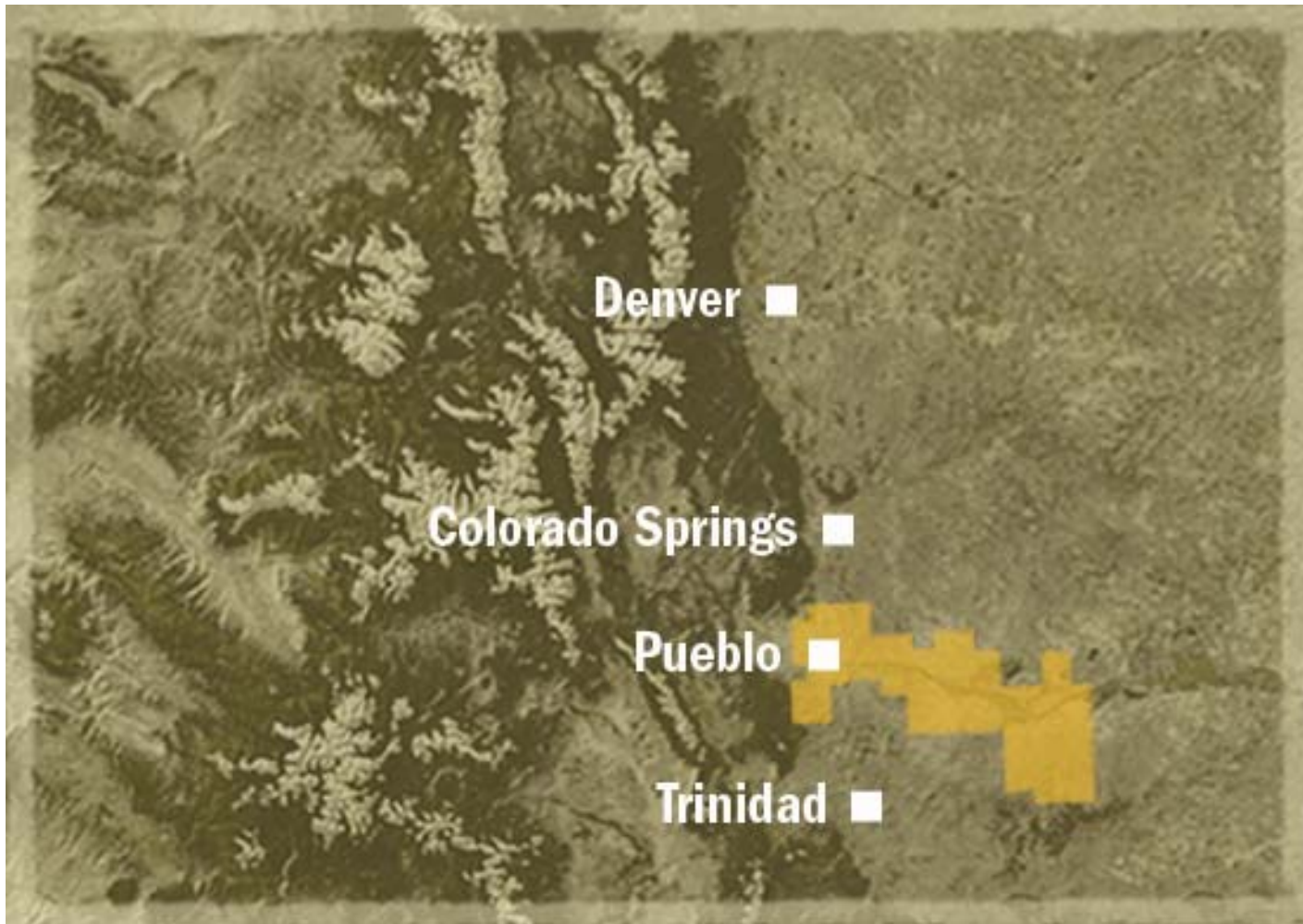


Xcel Energy Colorado Transmission Ownership Map

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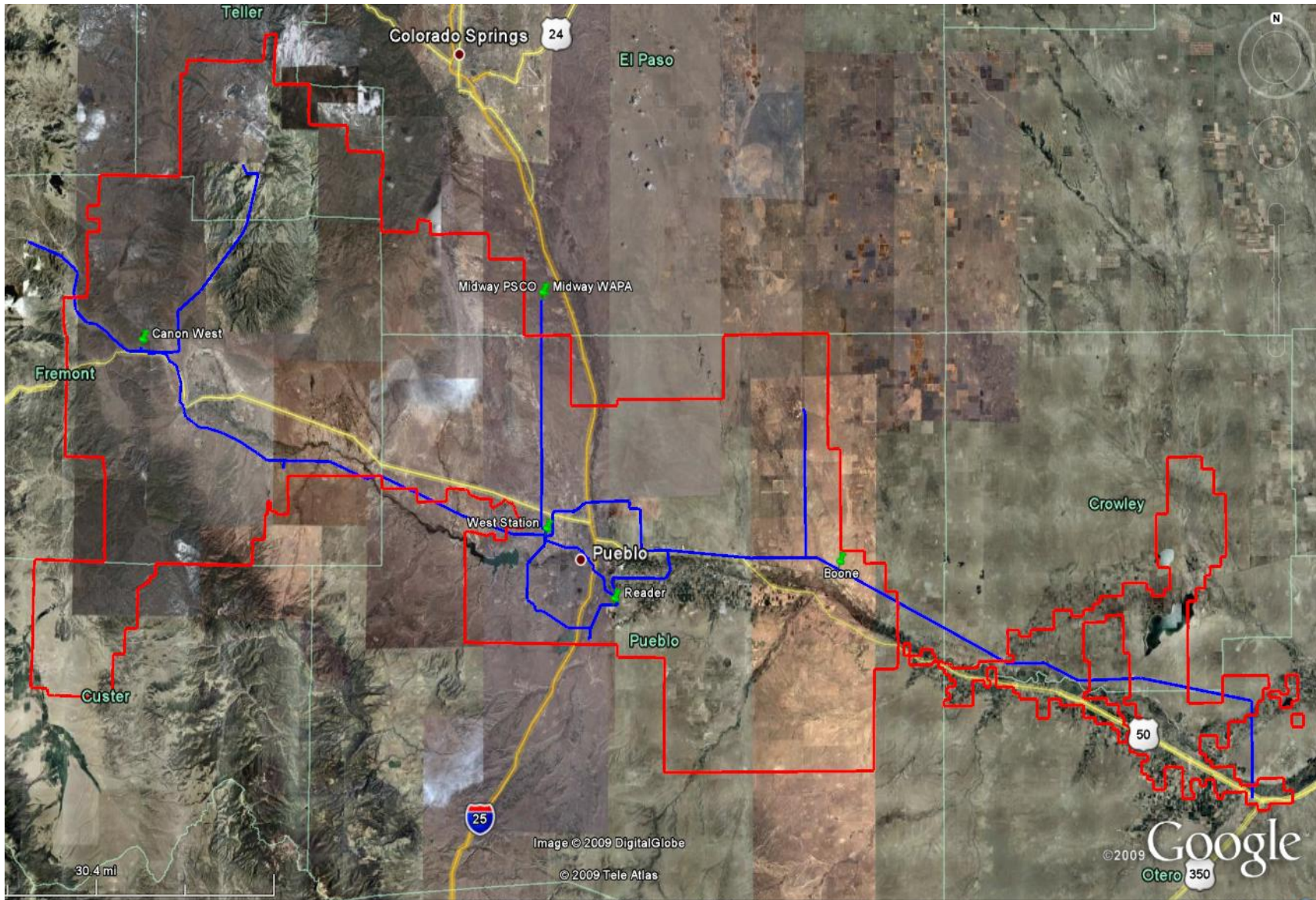


BHE Service Territory



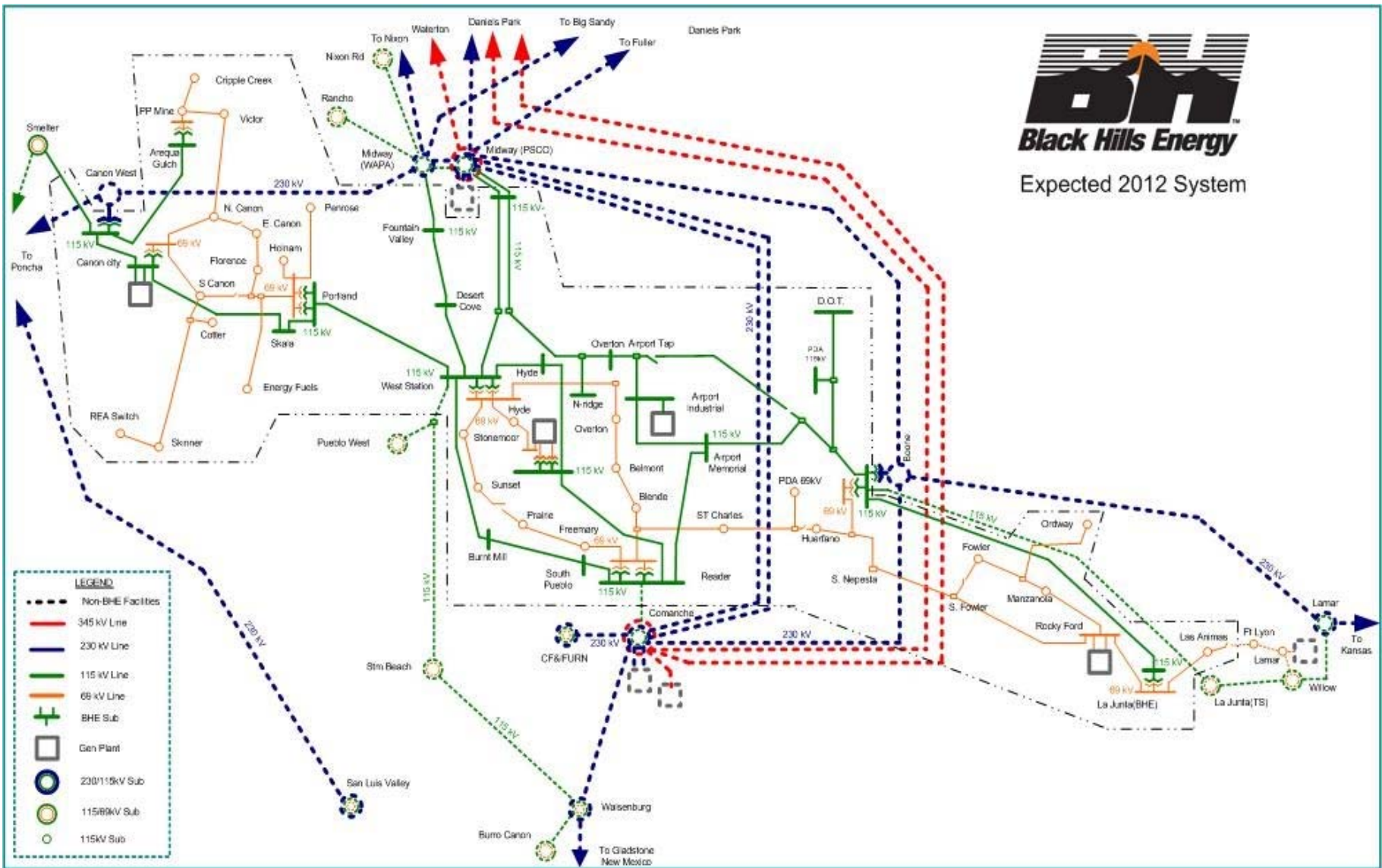
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BHCE Transmission System Map

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BHCE Transmission System

- Cañon City Area
 - Approximately 30% of total system load
 - Served from Cañon West and West Station substations
- Pueblo Area
 - Approximately 60% of total system load
 - Served from Midway, Reader, Boone and West Station substations
- Rocky Ford Area
 - Approximately 10% of total system load
 - Served from Boone and La Junta substations

BHCE Generator Interconnection Studies

- One Withdrawn Request
 - 200 MW at the Portland 115 kV substation
 - http://www.oatioasis.com/BHCT/BHCTdocs/WP_C-2005-01_Feasibility_Study.pdf
- One Active Request
 - 240 MW at the Reader 115 kV substation

BHCE Transmission System Interconnection Points

Interconnection Name	Interconnecting Utility
Midway (PSCo)	PSCo
Midway (WAPA)	Western, CSU, Tri-State
Boone	PSCo, Tri-State
Reader	PSCo
Cañon West	Western, PSCo
West Station	Tri-State

BHCE Transmission System Interconnection Cost Estimates

- Generic cost estimates for interconnection to the BHCE Transmission System will be provided for projects being proposed to connect directly to the Company's transmission system
- Bidders need to provide interconnection cost estimates for projects that are connected directly to other transmission providers, e.g. PSCo

Proposal Requirements

- Eligible Bidders
 - Any entity who can offer a non-intermittent dispatchable resource
 - Independent Power Producers, including the Company's affiliate IPP
 - Wholesale providers such as PSCo or Tri-State or a Company affiliate such as Black Hills Power
 - Municipalities such as the Town of Fowler

Proposal Requirements

- Transmission Interconnection – All costs necessary to deliver power to the BHCE system must be included in the proposal on Forms 3 and 9
 - Note the Company is not currently a network transmission service customer on any third-party transmission system
- Fuel Supply and Delivery – All costs associated with commodity and transportation must be included in the proposal on Forms 3 and 9
 - Bidder must provide fuel - **No** tolling

Proposal Requirements

- Section 4.2
 - Minimum Requirements for Proposals
- Section 4.3.1
 - Describes topics and forms
- Section 4.5
 - Notice of Intent to Respond – May 1, 2009
- Section 4.6
 - Proposal Deadline – June 8, 2009
- Section 4.8
 - Bid Evaluation Fee

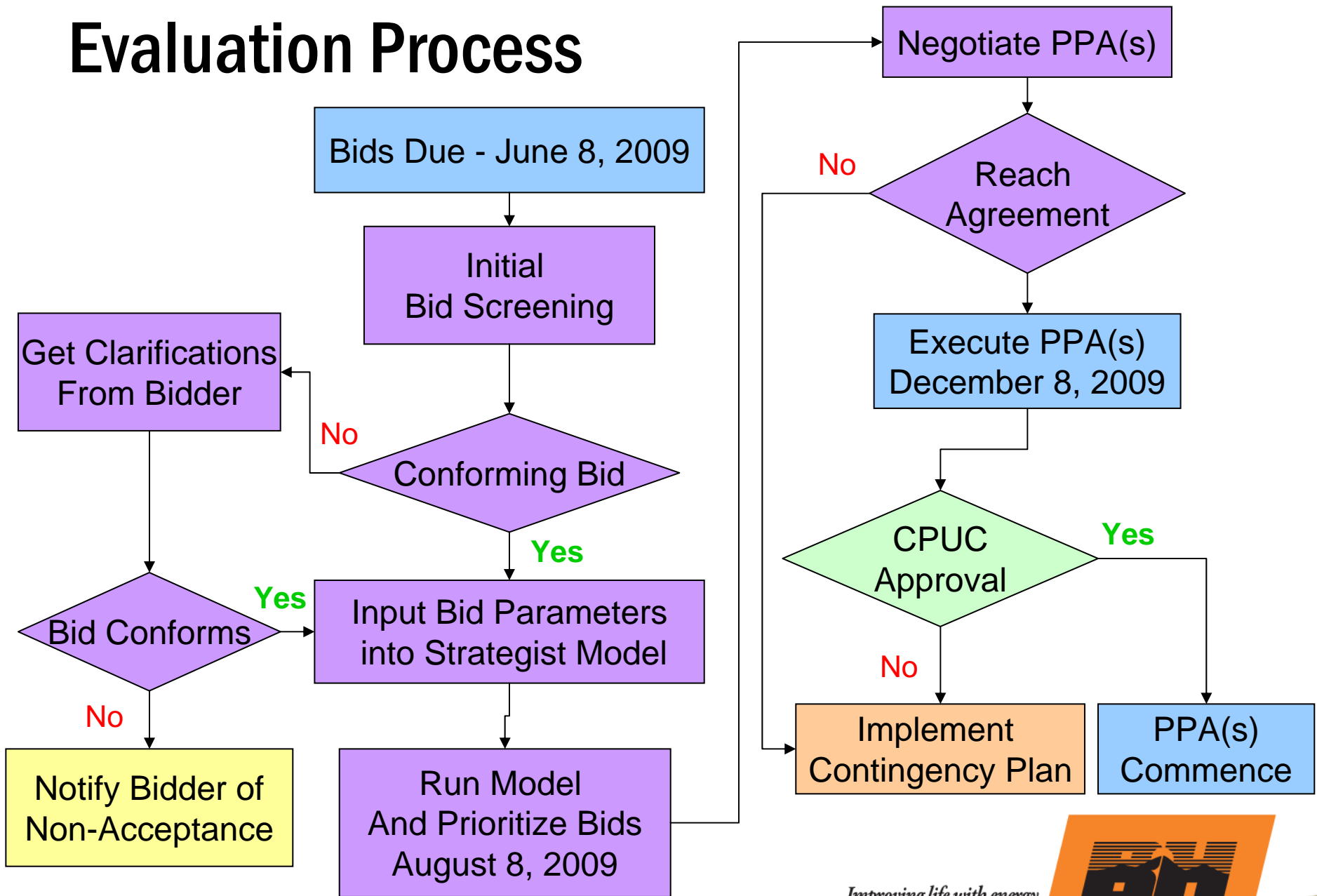
Evaluation Process

- Bid evaluation team – BH Employees
 - Stuart Wevik
 - *VP Electric Utilities* – Executive Sponsor
 - Jackie Sargent
 - *Director of Generation Dispatch and Power Marketing* – Project Manager and Technical Advisor
 - Chris Kilpatrick
 - *Director of Electric Utility Rates* – Financial Advisor
 - Todd Brink
 - *Senior Counsel* – Legal Advisor

Evaluation Process

- Bid evaluation team – Consultants
 - Jill Tietjen
 - *President and CEO of Technically Speaking* – Process and Technical Support
 - Black & Veatch
 - Enterprise Management Solutions Division – Strategist Modeling

Evaluation Process



Evaluation Process

- Modeling will be conducted to identify the least cost options from among the conforming bids received
 - The bid evaluation team will use the services of Black & Veatch who will perform the necessary capacity expansion modeling using Strategist
 - Jill Tietjen of Technically Speaking will be checking and verifying model inputs and results
 - Independent Evaluator will be monitoring and reporting on the process

Evaluation Process

- Assumptions
 - All assumptions as used for the ERP modeling except for carbon dioxide
 - Carbon dioxide tax modeled at \$20/ton starting in 2010 and escalating at 7% per year

Evaluation Process

- Independent Evaluator
 - Serving as a monitor **ONLY** – more like an independent auditor
 - Will **NOT** be performing modeling analysis
 - Will monitor utility's modeling process
 - Will verify that bid selection and contract negotiations are addressed in a fair and reasonable manner
 - Is required to file progress reports with the Colorado PUC every two weeks from when bids are received to when contracts are signed

Phase I RRR Decision

- Criteria for bid selection
 - Company to model all bids to determine the NPV of revenue requirements for each resource and generally make a selection based on **least-cost**
 - Note - other criteria in the RFP also still apply – such as proven access to financing

Phase I RRR Decision

- Clarified resources being solicited in this RFP
 - All resources capable of providing the *dispatchable power* the Company will need in 2012.
 - Includes, but is not limited to:
 - natural gas
 - demand response
 - dispatchable renewable technologies such as bio gas

Phase I RRR Decision

- Clarified role of the Independent Evaluator
 - included in bid evaluation process (but does not independently model)
 - included in significant aspects of contract negotiations
 - must maintain log of meetings, contracts, and issues to be filed with its bi-weekly reports

Phase I RRR Decision

- Clarified role of the Independent Evaluator (continued)
 - does not have authority to resolve conflicts; not an arbitrator
 - IE to use its judgment and discretion to determine the level of oversight necessary
 - IE to use FERC Order 707 as guidance if affiliate bids

Phase I RRR Decision

- Impact of revised PSCo forecast
 - A bridge contract with PSCo may extend the in-service date of resources to be bid until June 2013
 - However, possibility of a bridge contract is uncertain at this time – we don't have a proposal
 - Resource need is still January 1, 2012
 - Company does not want to discourage bids for that in-service date

Phase I RRR Decision

- Impact of revised PSCo forecast (continued)
 - BHCO to proceed with the bidding process
 - Bidders may offer multiple in-service dates under a single bid fee
 - For example, January 1, 2012, and one alternate date
 - Will require the submission of separate sets of forms
 - Any extension of the existing contract between BHCO and PSCo proposed before the conclusion of the bid process shall be filed with the Commission and BHCO to promptly notify bidders

Contact Information

- Questions regarding this solicitation must be sent to the following e-mail address:

BHCE2009RFP@blackhillscorp.com

- Information and postings related to this RFP are available at the following Web site:

<http://www.blackhillscorp.com/BHErfp.htm>

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Thank you for your interest and participation.

