Before the Public Utilities Commission of
the State of South Dakota

In the Matter of the Application of
Black Hills Power, Inc.

For the Phase In of Rates Regarding Construction Financing Costs

Docket No. EL12-___

December 17, 2012
TABLE OF CONTENTS

I. Introduction And Qualifications................................................................. 1
II. Purpose Of Testimony.................................................................................. 2
III. Overview Of Phase In Rate Plan Statutory Requirements.......................... 3
IV. Benefit To Customers.................................................................................. 7

EXHIBITS

None
1. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Richard C. (Chuck) Loomis. My business address is 409 Deadwood Avenue, Rapid City, South Dakota 57702.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Black Hills Power, Inc. (“Black Hills Power” or “Company”) as Vice President, Operations.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EMPLOYMENT HISTORY.

A. I earned a Master of Business Administration degree from Bowling Green State University in Bowling Green, Ohio, and a Bachelor of Business Administration degree with a major in Accounting from the University of Toledo, Toledo, Ohio. In addition, I have completed courses related to rate regulation of natural gas and electric utilities and natural gas and electric distribution operations sponsored by various industry organizations and associations. I joined Michigan Gas Utilities (“MGU”) in 1985 as General Accountant. From 1987 through 1994, I worked in positions with increasing responsibility in MGU’s Rates and Regulatory Affairs function, becoming Manager in 1992. In 1989, Aquila, Inc. (then UtiliCorp United) (“Aquila”) acquired MGU from Michigan Energy Resources Company and continued to operate MGU as a separate division.

From 1994-1997, I served as State Administrator in Michigan, and in July 1997, relocated to Omaha, Nebraska to become Aquila’s Asset Manager for Iowa and
Nebraska. In this position, I was responsible for the operational and financial performance of Aquila’s gas distribution assets serving nearly 325,000 customers in these two states. I became Manager of Aquila’s Nebraska Business Operations as part of a corporate restructuring in 2002. I was named Aquila’s Vice President, Kansas and Colorado Gas Operations in February 2004. On July 14, 2008, Black Hills Corporation acquired certain natural gas and electric utility assets from Aquila, including the Kansas and Colorado natural gas utility assets for which I was responsible. On July 14, 2008, I joined Black Hills Power as Vice President, Operations.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED TO BLACK HILLS POWER’S ELECTRIC OPERATIONS.

A. I am responsible for the leadership and management of Black Hills Power’s electric operations in South Dakota, Wyoming and Montana. I directly oversee state operating functions, including electric distribution network operations, maintenance, construction, local customer service, customer relations and community relations.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to 1) provide an overview of how the Company has complied with the South Dakota phase in statutes, and 2)
explain why the up front phase in of rates is the right thing to do for the
Company’s customers.

III. OVERVIEW OF PHASE IN RATE PLAN STATUTORY REQUIREMENTS

Q. DOES SOUTH DAKOTA PROVIDE FOR A PHASE IN RATE PLAN FOR RATE INCREASES DUE TO PLANT ADDITIONS?
A. Yes. The applicable South Dakota statutes are set forth in SDCL §§49-34A-73 to 78. SDCL §49-34A-73 provides that rate increases may be phased in prior to the commencement of commercial operation of the plant additions.

Q. IS THE COMPANY PLANNING A PLANT ADDITION THAT IS EXPECTED TO HAVE A MATERIAL IMPACT ON RATES?
A. Yes. Black Hills Power and Cheyenne Light, Fuel and Power Company (“Cheyenne Light”) will be the joint owners of a natural-gas fired generation facility known as the Cheyenne Prairie Generating Station (“CPGS”) that will be placed in service on or about October 1, 2014. The testimony of Mark Lux describes CPGS, and also describes the Certificate of Public Convenience and Necessity that was approved by the Wyoming Public Service Commission (“Wyoming PSC”). The Wyoming PSC concluded that Black Hills Power had established the need for CPGS and that it is a reasonable resource for meeting the Company’s need.
Q. IS CPGS A “PLANT ADDITION” AS DEFINED IN THE PHASE IN RATE PLAN STATUTES?
A. Yes, CPGS meets the definition of “plant additions” as set forth in §49-34A-73.1.

Q. IS THE COMPANY FILING A PHASE IN PLAN AS PROVIDED IN SDCL §49-34A-73?
A. Yes. In addition, the Company’s phase in plan includes provision for those items that may be allowed pursuant to SDCL §49-34A-73 (1) to (4), as follows:

SDCL §49-34A-73 (1) provides that rate increases may be incrementally phased in prior to the commencement of commercial operations of the plant additions. The Company’s phase in plan incrementally increases rates each quarter during the CPGS construction period, which mitigates the initial rate increase impact to customers. The phase in plan provides that rates will be increased over a period of time rather than one large increase when CPGS is placed in service on or about October 1, 2014. The incremental rate increases are discussed in the testimony of Christopher J. Kilpatrick.

SDCL §49-34A-73(2) provides that to the extent phased in rate increases are authorized, there may be restrictions on the capitalization of allowance for funds used during construction for the plant additions. The Company’s phase in plan meets the statutory language. One of the benefits of the Company’s phase in plan is that it reduces construction costs by eliminating the Allowance for Funds Used During Construction (AFUDC). This, in turn, reduces Black Hills Power’s future
rate base. This concept is further discussed in Christopher J. Kilpatrick’s testimony.

SDCL §49-34A-73(3) provides for restrictions on other rate increases. Barring unforeseen circumstances, the Company does not intend to file any rate increase applications for an increase to base rates that would go into effect prior to October 1, 2014, except for the application filed on December 17, 2012 for a rate increase proposed to go into effect April 1, 2013.

SDCL §49-34A-73(4) provides for any other conditions which benefit the public interest and may be imposed by the commission consistent with the findings in SDCL §49-34A-74.

The information set forth below addresses SDCL §49-34A-74.

Q. DOES THE COMPANY’S PROPOSED PHASE IN RATE PLAN MEET THE REQUIREMENTS OF SDCL §49-34A-74?

A. Yes. The Company has filed this Application prior to the commencement of construction of CPGS, which is scheduled to commence in early 2013. (see SDCL §49-34A-74(1)). The Company has filed with this application a full cost of service analysis, including a projection of costs and revenue requirements to the anticipated commercial operation date of CPGS. Please see the testimony of Christopher J. Kilpatrick. (see SDCL 49-34A-74(2)). The Company requests that the Commission hold a hearing, with the required notice, regarding the phase in plan. (see SDCL 49-34A-74(3))
The Company believes that it has provided testimony for the Commission to find that the phase in rate plan is likely to enhance adequate utility service, rate stability, the financial stability of the electric utility, reasonable capital costs, just and reasonable rates, a fair rate of return, and other considerations that benefit the public interest. (see SDCL 49-34A-74(4)) Please see the testimony of Kyle D. White.

Q. WILL THE COMPANY COMPLY IN THE FUTURE WITH THE REQUIREMENTS OF SDCL §49-34A-75 AND §49-34A-76?

A. Yes. With regard to compliance with SDCL §49-34A-75: The Company will file, on an annual basis, an abbreviated cost of service analysis to meet the statutory requirement. Accordingly, and subject to Commission approval, there will be one report filed for the calendar year end December 31, 2013, and said report will be filed no later than May 1, 2014. Further, a quarterly report will be provided with the phase in plan rate filings that will show the progress of the construction of CPGS and projections to complete the construction of GPGS. The Company also fully intends to comply with the requirement of SDCL §49-34A-76. The Company presently intends to file a rate case no later than six months prior to the commercial operation of CPGS. The Company will also analyze and determine if a general rate case is needed within twelve months after the end of the phase in rate plan. Results will be evaluated, and if in the Company’s opinion, a general rate case is not warranted, the Company will work with Commission staff and/or file the necessary motion.
Q. IN SUMMARY, HAS THE COMPANY COMPLIED WITH THE SOUTH DAKOTA STATUTORY REQUIREMENTS FOR A PHASE IN RATE PLAN?

A. Yes.

IV. BENEFIT TO CUSTOMERS

Q. DO THE COMPANY’S CUSTOMERS BENEFIT FROM THE PHASE IN RATE PLAN?

A. Yes. First, the South Dakota customers of Black Hills Power will save approximately $1.5 million over the life of the plant on a net present value calculation by avoiding AFUDC in rate base. Second, the phase in rate plan will moderate the rate increase when CPGS is put into rate base. As explained in the testimony of Kyle D. White, the innovative approach to the phase in rate plan benefits customers in unique ways and still meets the needs of the Company’s shareholders. The bottom line is the phase in rate plan is the right thing to do for the Company’s customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.