

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**APPLICATION OF BLACK HILLS)
POWER, INC. FOR AN INCREASE)
IN ELECTRIC RATES)**

DIRECT TESTIMONY OF CHRISTOPHER J. KILPATRICK

I. INTRODUCTION & QUALIFICATIONS

1 **Q. STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Christopher J. Kilpatrick, and 625 Ninth Street, Rapid City,
3 South Dakota 57701.

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

5 A. I am employed by Black Hills Service Company, LLC (Service
6 Company), a wholly-owned subsidiary of Black Hills Corporation (Black
7 Hills) and currently serve as Director of Accounting – Retail Operations
8 for Black Hills.

9 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

10 A. I am a graduate of Mount Marty College in Yankton, South Dakota with
11 a Bachelor of Arts Degree in Accounting. I'm a Certified Public
12 Accountant (CPA), a member of the American Institute of Certified
13 Public Accountants and the South Dakota CPA Society.

14 **Q. PLEASE DESCRIBE YOUR WORK HISTORY.**

15 A. My work experience includes working for two public accounting firms
16 from 1994 through 1999. The first company was Wohlenberg,
17 Ritzman, and Co. located in Yankton, South Dakota and the second

1 firm was Ketel Thorstenson located in Rapid City, South Dakota. I
2 began my career with Black Hills in January 2000 in the internal audit
3 department. In August of 2003, I was hired to be the controller of
4 Black Hills FiberCom until February of 2005 when I assumed my
5 current position of Director of Accounting – Retail Operations.

6 **Q. PLEASE DEFINE THE TERM RETAIL OPERATIONS.**

7 A. Black Hills Corporation's Retail Operations include its wholly-owned
8 subsidiaries Black Hills Power, Inc. (Black Hills Power), Cheyenne
9 Light, Fuel and Power Company and the Service Company.

10 **Q. BRIEFLY DEFINE YOUR DUTIES AND RESPONSIBILITIES.**

11 A. I am responsible for the accounting and financial reporting for the three
12 subsidiaries described above. I review financial information and verify
13 the financial reporting for each subsidiary is accurate and in
14 accordance with the rules and regulations of the Federal Energy
15 Regulatory Commission (FERC) and Generally Accepted Accounting
16 Principles (GAAP).

17 **II. PURPOSE**

18 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

19 A. The purpose of my testimony is to support the revenue requirement
20 presented in Volume 1 as Statements A through R of Black Hills
21 Power's Application.

1 Transmission System are taken out of the cost of service. The
2 adjustment for transmission expenses is discussed later in my
3 testimony.

4 **Q. DESCRIBE HOW YOU DETERMINED WHAT AMOUNT OF RATE**
5 **BASE FOR THE TRANSMISSION SYSTEM TO DIRECTLY ASSIGN**
6 **TO THE NEW JURISDICTION.**

7 A. The Transmission System assets were identified through a review of
8 Black Hills Power's property records consistent with filings made with
9 the FERC related to the establishment of tariffs. The asset list was
10 updated through December 31, 2005.

11 **Q. PLEASE DESCRIBE THE COST OF SERVICE MODEL.**

12 A. The Cost of Service Model develops the cost to serve Black Hills
13 Power's customers and includes the calculation of return on rate base.

14 **Q. EXPLAIN HOW THE COST TO SERVE BLACK HILLS POWER'S**
15 **CUSTOMERS WAS DEVELOPED.**

16 A. The starting point to determine the cost to serve customers is the per
17 books financial statements, kept and recorded in the normal course of
18 business, in compliance with FERC rules and regulations and as filed
19 in Black Hills Power's FERC Form 1. Adjustments for known and
20 measurable items were then made to the per books financial
21 statements to determine the pro-forma costs and revenue requirement.

22 **Q. EXPLAIN THE BASIS OF THE KNOWN AND MEASURABLE**
23 **ADJUSTMENTS MADE TO THE COST OF SERVICE.**

1 A. Known and measurable adjustments to the per books financial
2 statements include: 1) adjusting expenses to a normal expense in a
3 normal year to serve our customer base; 2) increasing or decreasing
4 expenses based on 2006 information that is not reflected in the 2005
5 test year, and 3) including additional rate base that will be used to
6 serve our customers at the time the new rates go into effect.

7 **IV. RATE BASE**

8 **Q. DESCRIBE RATE BASE.**

9 A. Rate base consists of net plant in service, inventories, prepayments
10 and cash working capital, less customer contributions and tax
11 deferrals.

12 **Q. DESCRIBE THE KNOWN AND MEASURABLE ADJUSTMENTS
13 MADE TO RATE BASE FOR CAPITAL ADDITIONS.**

14 A. A review of the 2006 budget for capital additions was performed on all
15 projects valued in excess of \$100,000. Based on the detailed review
16 of these projects and consultation with each department's manager,
17 we included in the rate base any non-revenue producing capital
18 additions expected to be in service by the end of 2006. We also
19 annualized FERC account 106 (Construction Costs Not Classified) to
20 determine the final adjustments shown on Statement D, page 2. All of
21 the calculations are consistent with prior filings and in accordance with
22 the South Dakota Public Utilities Commission's applicable rules and
23 regulations for developing these statements.

1 **Q. PLEASE DESCRIBE THE OTHER RATE BASE REDUCTIONS**
2 **IDENTIFIED ON STATEMENT M.**

3 A. These are account balances for which Black Hills Power has received
4 a cash benefit that are not otherwise reflected in the expense
5 accounts. For example, the deferred tax liability for depreciation is a
6 reduction to rate base since Black Hills Power was able to deduct for
7 income tax purposes higher depreciation expense and therefore pay
8 lower federal income tax. Schedule M-1 provides details of the
9 makeup of these other rate base reductions.

10 **V. WORKING CAPITAL**

11 **Q. HOW WAS WORKING CAPITAL CALCULATED AND INCLUDED IN**
12 **RATE BASE?**

13 A. Working Capital, as shown on Statement F of the application, is
14 comprised of four components. Fuel Stocks, Materials and Supplies,
15 and Prepaid Expenses, which were prepared based on a twelve month
16 average on Schedule F-1, and cash working capital, which was
17 determined by preparing a Lead/Lag Study.

18 **Q. HOW WERE THE EXPENSE LEAD DAYS CALCULATED ON**
19 **SCHEDULE F-3?**

20 A. For each category on Schedule F-3, we reviewed a sample of invoices
21 paid from that category. The expense per day is a calculation based
22 on the total expense per category divided by the number of days in the
23 year. The invoices were reviewed to determine when the cash was

1 actually paid for the services performed. The expense lead days are
2 the time between when the service was received and when the cash
3 was paid for the service. The calculations are consistent with the
4 previous filings.

5 **Q. CAN YOU DESCRIBE HOW THE REVENUE LAG DAYS WERE**
6 **CALCULATED?**

7 A. The revenue lag days for Black Hills Power were derived by taking a
8 27.48 day lag from billing to collection and adding one half of the
9 average billing period, or 15.21 days. This results in a total of 42.69
10 revenue lag days.

11 **Q. HOW DO YOU CALCULATE THE FINAL CASH WORKING CAPITAL**
12 **AMOUNT?**

13 A. The difference between the revenue lag days and expense lead days
14 is 5.97. This is multiplied by the average expenditure per day for a
15 total of \$2,805,807. This amount is then reduced by the tax collection
16 as shown on Schedule F-3, page 2, to determine the final Cash
17 Working Capital adjustment of \$2,153,659.

18 **Q. PLEASE DESCRIBE THE ADJUSTMENT FOR ADDITIONAL**
19 **NATURAL GAS FOR STORAGE ON SCHEDULE F-1.**

20 A. Under current market conditions, Black Hills Power determined that it
21 would be prudent to have additional natural gas in storage to help
22 offset fuel price volatility. This adjustment to working capital was made

1 to account for natural gas injected into storage during 2006. The
2 adjustment calculation is shown on workpaper WP-11.

3 **VI. ADJUSTMENTS**

4 **Q. EXPLAIN THE ADJUSTMENTS FOR THE COST OF SERVICE.**

5 A. Several adjustments were made to the Cost of Service as shown on
6 Statement H. The adjustments are shown in the columns labeled 1
7 through 13 and reflect the changes from Per Books to Adjusted Totals.

8 **Q. DESCRIBE THE ADJUSTMENT MADE IN COLUMN 1.**

9 A. The adjustment in column 1 was made to decrease expenses for the
10 incremental cost of purchasing replacement power during the Neil
11 Simpson II outage that occurred in July and August 2005. The amount
12 of the adjustment is \$3,258,995 and is the difference between the cost
13 of replacement power and the estimated cost of producing the same
14 amount of power with Neal Simpson II. The calculation is shown on
15 workpaper WP-6.

16 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO TRANSMISSION
17 EXPENSE IN COLUMN 2.**

18 A. This adjustment reduces transmission expense to reflect the new
19 wholesale contract with Montana-Dakota Utilities Co. (MDU) effective
20 January 1, 2007. Under the new contract, Black Hills Power will be
21 reimbursed by MDU for its use of Black Hills Power's transmission
22 rights. The calculation of the adjustment is set forth on workpaper WP-
23 7.

1 **Q. WHAT IS THE COLUMN 3 ADJUSTMENT OF \$183,333?**

2 A. This adjustment has been made to reflect the expenses associated
3 with preparation of this rate application. The total estimated cost of
4 \$550,000 was amortized over three years and included as an expense
5 adjustment.

6 **Q. PLEASE DESCRIBE THE SERIES OF ADJUSTMENTS SHOWN IN**
7 **COLUMN 4.**

8 A. The adjustments in column 4 relate to Power Marketing activities of
9 Black Hills Power. The amounts removed from expense represent
10 costs related to Power Marketing activities. Adjustments to Coal,
11 Natural Gas, Purchase Power, and Transmission represent costs for
12 energy sold by Power Marketing for marketing purposes and thus, not
13 used to serve Black Hills Power's load. The reduction in Administrative
14 and General Expenses of \$3,845,118 includes legal fees and costs of
15 \$3,006,811 associated with a power marketing dispute between
16 PacifiCorp Power Marketing and Black Hills Power. The remaining
17 amount of \$838,307 represents labor dollars and bonus payments
18 associated with Power Marketing. Schedule H-6 provides additional
19 detail regarding Power Marketing activities.

20 **Q. WHAT ADJUSTMENTS ARE REFLECTED IN COLUMN 5?**

21 A. This column is a combination of three adjustments as shown on
22 Schedule H-1. The first adjustment on Schedule H-1 represents new
23 employee positions that were not included in labor dollars for the test

1 year. These additional employees are described in the testimony of
2 Jackie Sargent. The labor dollars for each position were determined in
3 accordance with Black Hills Power's wage matrix. This is a
4 combination of wage surveys by industry and by location.

5 The next adjustment was made to reflect the implementation of the
6 Service Company as discussed in the testimony of Mark Thies.

7 Expenses associated with employees that were transferred from Black
8 Hills Power to the Service Company were deducted from Black Hills
9 Power's cost of service. The expenses associated with the transferred
10 employees were determined from the accounting records of Black Hills
11 Power. Those same employees were separated out on Schedule H-5
12 to help illustrate that the increase in charges from the Service
13 Company in 2006 was due, in part, to these transferred employees.

14 The associated expense was transferred from Black Hills Power to the
15 Service Company and billed back to Black Hills Power by the Service
16 Company.

17 The last adjustment is the increase in employee wages expected to be
18 incurred during 2006. The recently negotiated and executed
19 agreement with the bargaining unit, effective April 1, 2006, includes a
20 five percent wage increase. The amount of expense included in the
21 cost of service was determined based upon a three year average for
22 bargaining unit employees from 2003 through 2005, taking into
23 consideration the proportion that was expensed and capitalized during

1 that period. This result was not materially different than if we had used
2 the test year results alone. A wage adjustment was also made for non-
3 bargaining unit employees calculated on the average percentage
4 increase in wages from 2003 through 2005. The expense amount was
5 calculated using the same method as the bargaining unit employee
6 wage calculation adjustment.

7 **Q. WHAT IS THE PURPOSE OF THE ADJUSTMENTS IN COLUMN 6?**

8 A. These adjustments are related to the termination and buy-out of
9 change-in-control agreements for certain Black Hills Power employees
10 as described in the testimony of Jackie Sargent. Wage and 401(k)
11 company matching expense were removed from the cost of service for
12 this one-time expense.

13 **Q. DESCRIBE THE ADJUSTMENT FOR SERVICE COMPANY COSTS
14 SHOWN IN COLUMN 7.**

15 A. These adjustments to Black Hills Power's costs represent charges by
16 the Service Company under the methodology we began using in 2006.
17 Based on a comparison of cost allocations from 2005 and the charges
18 and allocations under the Service Company in 2006, it was determined
19 the amounts included in the allocations for the 2005 test year did not
20 properly reflect actual or projected expenses based upon the tracking
21 system used by the Service Company as shown on Schedule H-5.

22 **Q. HOW DO THE ALLOCATIONS FUNCTION UNDER THE SERVICE
23 COMPANY METHODOLOGY?**

1 A. In connection with Black Hills Corporation's becoming a registered
2 holding company in late December 2004, Black Hills Corporation
3 formed the Service Company which became operational January 1,
4 2006. At that time, the Service Company began allocating corporate
5 administrative and general expenses in accordance with rules and
6 regulations promulgated by the Securities and Exchange Commission
7 under the Public Utility Holding Company Act of 1935 which was in
8 effect at the time. Black Hills' implementation of a Service Company
9 provided opportunity for developing additional detail regarding how
10 costs are allocated to each subsidiary and a new comprehensive
11 expense allocation method was developed. The accounting software
12 utilized by the Service Company was enhanced to ensure all costs
13 were tracked and charged appropriately. As a result, the Service
14 Company can now verify each invoice to determine that it has been
15 properly charged to the correct company. An additional change in the
16 allocation methods requires that, at the end of each month, all the
17 costs associated with the Service Company are immediately allocated
18 to the subsidiaries, resulting in no costs remaining with the Service
19 Company. The testimony of Mark Thies discusses the Service
20 Company and provides the specific allocation methodologies and cost
21 accounting manual used by the Service Company.

22 **Q. WHY WAS AN ADJUSTMENT MADE TO PENSION AND BENEFITS**
23 **EXPENSE IN COLUMN 8?**

1 A. The \$48,713 removed from the Cost of Service represents the net
2 health care and pension costs associated with the addition of
3 employees and the transfer of employees identified on Schedule H-1,
4 as shown workpaper WP-12. The costs for 2005 were based on actual
5 expenses per eligible employee for 2005 and a reduction was made to
6 expenses based on the forecast for 2006 expense per eligible Black
7 Hills Power employee transferred to the Service Company.

8 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO TRANSMISSION**
9 **EXPENSES IN COLUMN 9.**

10 A. As was described above, the Transmission System assets have been
11 directly assigned to a separate jurisdiction in the Cost of Service
12 model. This expense adjustment represents the 2005 charges for use
13 of the Transmission System by Black Hills Power in accordance with
14 the FERC tariffs as identified in workpaper WP-8.

15 **Q. WHAT IS THE INCREASE IN TRANSMISSION EXPENSE**
16 **IDENTIFIED IN COLUMN 10?**

17 A. The increase in transmission expense is a known and measurable
18 adjustment based on new FERC approved rates for the CUS that went
19 into effect in December, 2005. Black Hills Power's costs as a
20 transmission customer of the CUS system will increase by \$1,324,770
21 as identified in workpaper WP-9.

22 **Q. EXPLAIN THE ADJUSTMENT TO STEAM PRODUCTION**
23 **MAINTENANCE SHOWN IN COLUMN 11.**

1 A. A known and measurable adjustment was made to boiler maintenance
2 expenses for costs not included in the test year. In addition to the
3 normal maintenance costs included in the test year, Black Hills Power
4 will have additional maintenance costs of approximately \$1.472 million
5 with the planned overhaul of the WYodak Plant in May and June of this
6 year. This type of planned maintenance outage will occur every five
7 years going forward and accordingly we made an adjustment to
8 increase expenses by \$294,400. We determined the amount of the
9 adjustment by taking the total amount resulting from the planned
10 outage and amortizing it over a five year period.

11 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO COAL COSTS IN**
12 **COLUMN 12?**

13 A. Coal costs have been increased to reflect the projected 2006 increase
14 in costs based on methodology described in the testimony of Perry
15 Krush. The increase was calculated based on the same coal tons
16 consumed during 2005 and the projected cost of coal. Workpaper WP-
17 10 has additional details of this adjustment.

18 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO ADVERTISING**
19 **EXPENSES IN COLUMN 13.**

20 A. Advertising expenses in the amount of \$159,629 were removed from
21 the Cost of Service, leaving approximately \$5,000 of costs for
22 advertising related to safety and energy conservation.

23 **VII. DEPRECIATION ADJUSTMENT**

1 Q. IS THE COMPANY PROPOSING ANY DEPRECIATION RATE
2 CHANGES?

3 A. Yes. Based on the study performed by Black & Veatch, the new rates
4 identified in the study have been used to prepare Statement J. The
5 testimony of Larry Loos explains the findings of the depreciation study
6 in more detail.

7 Q. HOW IS THE DEPRECIATION ADJUSTMENT CALCULATED ON
8 STATEMENT J?

9 A. The depreciation adjustment is calculated by using the new
10 depreciation rates, as determined by our depreciation study, multiplied
11 by the average plant in service. The new depreciation expense is then
12 compared to what was recorded on the books for 2005 and the
13 difference is then divided by two to average the amount, which is
14 recorded on Schedule N-1 as the adjusted cost of service expense and
15 increase in accumulated depreciation. This is consistent with the
16 previous rate case filed in 1995.

17 VIII. ADDITIONAL CHANGES TO COST OF SERVICE

18 Q. WHAT OTHER CHANGES IN COST OF SERVICE HAVE BEEN
19 INCLUDED?

20 A. On Statement L, additional payroll taxes were calculated based on the
21 known and measurable adjustments described on Schedule H-1. The
22 net payroll change was multiplied by the federal payroll tax rates to
23 determine the adjustment to payroll taxes as shown on Schedule L-1.

1 **Q. HOW IS THE ADJUSTMENT FOR PROPERTY TAXES**
2 **CALCULATED ON STATEMENT L?**

3 A. The additional property tax is calculated based on the year's 2003-
4 2005 average property tax expense as a percentage of net plant
5 assets at each December. The calculated percentage was then
6 multiplied by the new plant in service taken from Statement D, page 2,
7 the product of which is the adjustment for property tax as shown on
8 Schedule L-1.

9 **Q. HOW IS THE FEDERAL INCOME TAX CALCULATED ON**
10 **STATEMENT K?**

11 A. The deferred federal tax true-up is not included in the calculation
12 because this was a one-time calculation. Therefore, the deferred
13 federal tax was removed as a known and measurable change in the
14 adjusted calculation. A 35 percent federal income tax rate was used to
15 calculate the additional tax to be paid on the new revenue generated
16 from the rate case, which is consistent with past practice.

17 **Q. HOW IS STATEMENT P, PAGE 1, CALCULATED FOR THE**
18 **PROPOSED STEAM PLANT FUEL COST ADJUSTMENT?**

19 A. Statement P, page 1, was calculated starting with the total per books
20 and adjusted for Power Marketing use of steam plant fuel and an
21 adjustment to increase coal expense based on projected 2006 pricing
22 as shown on workpaper WP-10. The adjusted expense for steam plant

1 fuel was then divided by the total system energy sales as shown on
2 workpaper WP-1 to determine the base cost per kWh of \$0.00630.

3 **Q. HOW IS STATEMENT P, PAGE 2, CALCULATED FOR THE**
4 **PROPOSED TRANSMISSION COST ADJUSTMENT?**

5 A. Statement P, page 2, is calculated using the same methodology as
6 was used on Statement P, page 1. The starting point is the total
7 transmission expense per books as shown on Statement H, line 53,
8 plus the adjustment in column 9. The amounts removed and added
9 are consistent with adjustments described above in Adjustments #2,
10 #4, and #10. The base transmission expense on Statement P, page 2,
11 line 5, is the same adjusted total amount as on Statement H, line 53.
12 This base transmission expense is then divided by the retail energy
13 sales as shown on workpaper WP-1 to determine the base cost per
14 kWh of \$0.00613.

15 **Q. HOW IS STATEMENT P, PAGE 3, CALCULATED FOR THE**
16 **PROPOSED CONDITIONAL ENERGY COST ADJUSTMENT?**

17 A. Statement P, page 3, is also calculated consistent with the previous
18 pages of Statement P. The starting point is the total other fuel per
19 books, Statement H, line 26, plus purchased power costs per books on
20 Statement H, lines 42 and 43. This amount is then reduced by the cost
21 of the Neil Simpson II outage as described in Adjustment #1 above and
22 by Power Marketing expenses as described in Adjustment #4 above,
23 and as also shown in Schedule H-6. The base cost for other fuel and

1 purchased power costs is then divided by the system energy sales as
2 shown on workpaper WP-1 to determine the base cost per kWh of
3 \$0.01094.

4 **Q. EXPLAIN HOW STATEMENT N WAS PREPARED.**

5 A. Statement N was prepared based on Black Hills Power's per book
6 financial statements as filed in the application. The allocation factors
7 were derived from data obtained from the FERC Form 1 along with a
8 twelve month average calculated for other allocation factors. Those
9 factors allocate the rate base and cost to serve customers to the
10 separate regulatory jurisdictions.

11 **Q. WHAT IS THE PURPOSE OF SCHEDULE N-1?**

12 A. The purpose of Schedule N-1 is to determine the adjusted cost of
13 service, allocated by jurisdiction.

14 **Q. EXPLAIN HOW SCHEDULE N-1 WAS PREPARED.**

15 A. Schedule N-1 is the same as Statement N, except that the amounts in
16 the total column are from the adjusted amounts for the rate base and
17 cost to serve customers. The allocation factors are the same in N-1 as
18 N to ensure that the adjusted amounts are allocated based on the
19 same percentages as the per book amounts.

20 **Q. WHAT ARE THE STEPS IN ALLOCATING RATE BASE AND**
21 **EXPENSES TO JURISDICTIONS?**

22 A. Using the adjusted rate base and cost of service, functions are then
23 created using FERC functional classifications (Generation,

1 Transmission, Distribution, Customer, and General). Within each
2 functional classification, an allocation percentage was used to allocate
3 rate base and costs based on the main driver of the rate base or
4 expense. For example, generation facilities are allocated based on
5 demand since generation is built to handle specific demands of Black
6 Hills Power's customers. This methodology conforms to the general
7 rate making principle of cost causation.

8 **Q. EXPLAIN HOW STATEMENT O WAS PREPARED.**

9 A. Statement O was prepared based on the per book amounts in the
10 financial statements for only the South Dakota portion of the Cost of
11 Service Model that was developed in Statement N. The total South
12 Dakota amount is then allocated to the South Dakota customers based
13 on the allocation factors developed for each rate class.

14 **Q. PLEASE DESCRIBE SCHEDULE O-1.**

15 A. The calculations and allocation in Schedule O-1 are exactly like
16 Statement O except the amounts in the total column represent the
17 adjusted, or pro forma, amounts for South Dakota developed on
18 Schedule N-1. The rate class allocations used in Schedule O-1 are the
19 same as used in Statement O.

20 **Q. WHERE DO YOU GET THE ACTUAL REVENUE AMOUNT BILLED?**

21 A. The actual revenue amount is from the billing system for revenue billed
22 to the customers of South Dakota as shown on Statement I, page 2.

23 **Q. WHAT IS THE FIRST ADJUSTMENT ON STATEMENT I?**

- 1 A. The first adjustment on Statement I represents the removal of revenue
2 associated with Power Marketing. This revenue amount is included on
3 Schedule H-6 to determine the Power Marketing Net Income.
- 4 **Q. WHAT IS THE SECOND ADJUSTMENT ON STATEMENT I?**
- 5 A. The second adjustment reflects the increase in non-sufficient funds
6 check charges from \$15 to \$30 and also the increase in the connect
7 and re-connect charge from \$10 to \$20. Workpaper WP-13 has
8 additional information on these. The other portion of this adjustment is
9 for revenue from Mayer Radio which is now a part of Black Hills Power.
- 10 **Q. WHAT IS THE THIRD ADJUSTMENT ON STATEMENT I?**
- 11 A. The third adjustment represents Black Hills Power's portion of the CUS
12 system expenses that were recorded as a reduction in revenue but
13 have been reclassified as expenses on Statement H, Adjustment #9.
- 14 **Q. WHAT IS THE FOURTH ADJUSTMENT ON STATEMENT I?**
- 15 A. The fourth adjustment on Statement I is the revenue for the Rapid City
16 Converter Tie which is separated out for jurisdiction allocation
17 purposes.
- 18 **Q. HOW ARE THE SALES FOR RESALE HANDLED ON**
19 **STATEMENT I?**
- 20 A. The revenue received from the City of Gillette is directly assigned to
21 that jurisdiction. The remaining revenue in the sales for resale are
22 considered revenue credits.

1 **Q. WHAT IS THE AMOUNT OF ADDITIONAL REVENUE REQUIRED**
2 **BASED ON THE COST OF SERVICE STUDY FOR SOUTH**
3 **DAKOTA?**

4 A. As shown on Schedule O-1, Ref. # 8017, the additional revenue
5 amount needed before federal income tax is \$9,161,419. The
6 additional revenue amount needed after the gross up for federal
7 income tax is \$14,094,491, or 13.92 percent.

8 **Q. WHAT PERCENTAGE INCREASE ARE YOU REQUESTING WITH**
9 **YOUR FILING?**

10 A. While the cost of service study supports a 13.92 percent increase, we
11 are requesting a 9.50 percent increase. Kyle White discusses the
12 reasons for requesting the lower revenue increase.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes, it does.

