

Direct Testimony and Exhibits
Anthony S. Cleberg

Before the South Dakota Public Utilities Commission
of the State of South Dakota

In the Matter of the Application of
Black Hills Power, Inc., a South Dakota Corporation

For Authority to Increase Rates
in South Dakota

Docket No. EL09-___

September 29, 2009



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Exhibits

Exhibit ASC - 1:	Service Agreement – (Black Hills Power & Service Company)
Exhibit ASC - 2:	Service Agreement – (Black Hills Power & Utility Holding)
Exhibit ASC - 3:	Cost Allocation Manual (CAM) –Service Company
Exhibit ASC - 4:	Cost Allocation Manual (CAM) – Utility Holding
Exhibit ASC - 5:	Black Hills Power Credit Ratings
Exhibit ASC - 6:	Weighted Average Cost of Capital Calculation

I. INTRODUCTION AND QUALIFICATIONS

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

2 A. My name is Anthony S. Cleberg. My business address is 625 9th Street, Rapid
3 City, South Dakota 57701.

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

5 A. I am currently employed by Black Hills Corporation as Executive Vice President
6 and Chief Financial Officer. I am also the Principal Accounting Officer for all of
7 Black Hills Corporation's subsidiaries, including Black Hills Power, Inc. ("Black
8 Hills Power").

9 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS DOCKET?**

10 A. I am appearing on behalf of Black Hills Power, a wholly owned subsidiary of Black
11 Hills Corporation.

12 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.**

13 A. I have a Bachelor of Science degree in Accounting from the University of South
14 Dakota. I completed the Advanced Management Program at Harvard University. I
15 am a Certified Public Accountant and a Certified Management Accountant. I am
16 currently a member of the Board of Trustees for the University of South Dakota.

17 **Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

18 A. I was appointed to my current position as Executive Vice President and Chief
19 Financial Officer effective July 16, 2008. Prior to joining Black Hills
20 Corporation, I served in a number of managerial accounting positions. From
21 2002 to my appointment as Executive Vice President and CFO for Black Hills

1 Corporation, I was an independent consultant and investor advising multiple
2 clients on accounting, tax, investment, and other finance matters.

3 In addition to that experience, I served as Executive Vice President and Chief
4 Financial Officer of Champion Enterprises Inc. from October 2000 to October
5 2002. Prior to that employment, I served as an Executive Vice President and
6 Chief Financial Officer of Washington Group International Inc. (formerly known
7 as Morrison Knudsen Corporation) from May 1997 to October 2000. Both of
8 those companies were publicly traded companies.

9 From July 1982 to April 1997, I held various financial positions for Honeywell,
10 Inc., including: Corporate Vice President of Business Development, Corporate
11 Vice President of Taxes and Vice President of Finance, Space and Aviation
12 Control. Prior to Honeywell, I worked eight years in public accounting at Deloitte
13 & Touche.

14 I have also been a Member of the Board of Directors of Venturian Corporation
15 from June 1996 to February 2001, and CNA Surety Corp. since April 23, 2007 to
16 present.

17 **Q. PLEASE DESCRIBE YOUR DUTIES AND RESPONSIBILITIES IN YOUR**
18 **CURRENT POSITION.**

19 A. I am responsible for the Accounting, Finance, Tax and Supply Chain functions at
20 Black Hills Corporation and all of its subsidiaries. I oversee the managers and
21 other employees responsible to prepare all accounting, tax, finance, and
22 investment documents, to lead the supply chain and facility initiatives, and to

1 advise our senior leadership and the Board of Directors on decisions made for
2 Black Hills Corporation and all of its subsidiaries.

3 **II. PURPOSE OF TESTIMONY**

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. The purpose of my testimony is to support the following areas of the rate
6 application:

- 7 • Certify Books and Records of Black Hills Power
- 8 • Certify Use of Federal Energy Regulatory Commission (“FERC”) Uniform
9 System of Accounts for Black Hills Power
- 10 • Explain the structure of Black Hills Service Company (Service Company) and
11 Black Hills Utility Holdings, Inc. (Utility Holding)
- 12 • Describe Cost Allocation Procedures
- 13 • Discuss Corporate Finance Philosophy of Black Hills Power
- 14 • Support Proposed Capital Structure of Black Hills Power
- 15 • Support Long Term Debt and Cost of Equity
- 16 • Discuss Debt Financing Activity
- 17 • Support Weighted Average Cost of Capital

18 I note that some of the areas described above are supported within the direct
19 testimony of other witnesses for Black Hills Power, and my testimony below will
20 defer to the testimony of those witnesses as appropriate.

1 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

2 A. Yes, I am. I am sponsoring Exhibit Nos. ASC-1 through ASC-6 which I will
3 describe and refer to in my testimony. The Exhibits attached to this testimony are
4 as follows:

- 5 • **ASC-1:** Service Agreement – (Black Hills Power & Service Company)
- 6 • **ASC-2:** Service Agreement – (Black Hills Power & Utility Holding)
- 7 • **ASC-3:** Cost Allocation Manual (CAM) –Service Company
- 8 • **ASC-4:** Cost Allocation Manual (CAM) – Utility Holding
- 9 • **ASC-5:** Black Hills Power Credit Ratings
- 10 • **ASC-6:** Weighted Average Cost of Capital Calculation

11 **Q. HAVE THE TESTIMONY AND EXHIBITS WHICH YOU ARE**
12 **SPONSORING BEEN PREPARED BY YOU OR UNDER YOUR**
13 **SUPERVISION?**

14 A. Yes.

15 **III. ACCOUNTING RECORDS**

16 **Q. WOULD YOU BRIEFLY DESCRIBE YOUR DUTIES AND**
17 **RESPONSIBILITIES IN YOUR CURRENT POSITION?**

18 A. I am responsible for the consistent application of generally accepted accounting
19 principles (“GAAP”) and regulatory accounting principles and related financial
20 reporting of Black Hills Corporation and its subsidiaries, including Black Hills
21 Power.

1 **Q. ARE YOU FAMILIAR WITH THE BOOKS AND RECORDS OF BLACK**
2 **HILLS POWER AND THE MANNER IN WHICH THEY ARE KEPT?**

3 A. Yes. The financial statements and records have been prepared on the accrual basis
4 in conformity with GAAP and in accordance with accounting requirements of the
5 Federal Energy Regulatory Commission as set forth in its applicable Uniform
6 System of Accounts.

7 **IV. FUNCTIONS OF THE SERVICE COMPANIES**

8 **Q. WHY WAS BLACK HILLS SERVICE COMPANY FORMED?**

9 A. In January 2005, Black Hills Corporation became a registered holding company
10 under the Public Utility Holding Company Act 1935 ("PUHCA 1935"). One of
11 the many requirements under PUHCA 1935 was to form a service company and to
12 transfer employees that perform common functions for Black Hills Corporation's
13 subsidiaries to the Service Company. The Service Company was formed on
14 December 30, 2004 and became fully operational on January 1, 2006. PUHCA
15 1935 was subsequently repealed, and the Energy Policy Act of 2005 created the
16 Public Utility Holding Company Act of 2005 and moved the jurisdiction of service
17 companies to the FERC.

18 **Q. WHAT IS THE PURPOSE OF BLACK HILLS SERVICE COMPANY?**

19 A. The purpose of Service Company is to provide various support services, both
20 administrative and management, to all of Black Hills Corporation's subsidiaries in
21 an efficient and economical way and to ensure these support costs are allocated
22 among Black Hills Corporation and its subsidiaries in a fair and equitable manner.

1 **Q. WHY WAS UTILITY HOLDING FORMED?**

2 A. Black Hills Corporation formed Utility Holding to accommodate Black Hills
3 Corporation's utility operations through the Aquila utility asset purchase. Utility
4 Holding is a subsidiary of Black Hills Corporation, and is designed to focus on
5 Black Hills Corporation's regulated utility operations. Utility Holding was formed
6 to hold and clearly separate the newly acquired regulated utility holdings (i.e.,
7 former Aquila assets) of Black Hills Corporation from the non-regulated holdings
8 of Black Hills Corporation.

9 **Q. DOES BLACK HILLS POWER OBTAIN SERVICES FROM BLACK**
10 **HILLS SERVICE COMPANY?**

11 A. Yes. Black Hills Power obtains services from Service Company through a service
12 agreement providing for support services. This avoids the duplication of these
13 business functions by each of the regulated and non-regulated business units of
14 Black Hills Corporation. By providing support services on a centralized basis,
15 efficiencies are created when compared to stand-alone business functions.

16 **Q. DOES BLACK HILLS POWER OBTAIN SERVICES FROM UTILITY**
17 **HOLDING?**

18 A. Yes. Black Hills Power obtains services primarily related to customer service,
19 billing and information technology from Utility Holding through a service
20 agreement. Black Hills Power remains a separate subsidiary of Black Hills
21 Corporation and is not a subsidiary of Utility Holding.

1 **Q. ARE THESE SERVICES PROVIDED UNDER A WRITTEN**
2 **AGREEMENT?**

3 A. Yes, Black Hills Power has Service Agreements with Service Company and
4 Utility Holding. Both Service Company and Utility Holding provide their services
5 at cost to Black Hills Power and other Black Hills Corporation affiliates through
6 direct charges and indirect charges. Expenses for support services are charged to
7 Black Hills Power on a monthly basis pursuant to the Service Agreements. A copy
8 of the Service Company Service Agreement is attached to my testimony as Exhibit
9 ASC-1. A copy of the Utility Holding Service Agreement is attached as Exhibit
10 ASC-2.

11 **V. DESCRIPTION OF COST ALLOCATION MANUAL**

12 **Q. DOES THE COST ALLOCATION MANUAL DESCRIBE THE**
13 **METHODOLOGIES USED FOR ALLOCATION?**

14 A. Yes. The methodologies are described on pages 14-17 for the Service Company
15 Cost Allocation Manual (CAM) and pages 10-19 for the Utility Holding CAM.
16 The departments and services provided by Service Company and Utility Holding
17 are different. The Service Company provides support services, including
18 administrative and management, to all regulated and non-regulated business units
19 of Black Hills Corporation. Conversely, Utility Holding provides services
20 primarily related to customer service, billing and information technology, and
21 provides those services only to the regulated business holdings of Black Hills
22 Corporation. In addition, Black Hills Power does not receive services from every

1 department of the Service Company. A copy the Cost Allocation Manual (CAM)
2 for Service Company is attached as Exhibit ASC-3. A copy the Cost Allocation
3 Manual for Utility Holding is attached as Exhibit ASC-4.

4 **Q. HAS BLACK HILLS SERVICE COMPANY PROVIDED ITS CAM TO**
5 **ANY REGULATORY COMMISSION?**

6 **A.** Yes. The Service Company CAM has been previously provided to the South
7 Dakota Public Utilities Commission, along with the other Commissions in which
8 Black Hills Corporation operates its regulated utility businesses. Exhibit ASC-3 is
9 an updated version to the one previously provided to the Commission. There are
10 no material changes to the methodologies of the Service Company CAM
11 previously provided to the Commission. The Service Company CAM has been
12 updated to reflect the acquisition and divestiture of assets in July 2008.

13 **Q. IS IT NORMAL PRACTICE FOR DIVERSIFIED UTILITIES TO USE**
14 **CAMS FOR COMMON BUSINESS COSTS?**

15 **A.** Yes. The CAM was designed to distribute support costs to subsidiaries.

16 **Q. HAS THE UTILITY HOLDING CAM PREVIOUSLY BEEN PROVIDED?**

17 **A.** No, it has not previously been provided to the South Dakota Commission.

18 **Q. CAN YOU EXPLAIN THE DIFFERENCE BETWEEN DIRECT AND**
19 **INDIRECT CHARGES?**

20 **A.** Yes. Direct charges are those costs specifically associated with providing support
21 to an identified subsidiary or group of identified subsidiaries. Indirect charges are
22 those costs that are not associated with an identified subsidiary, meaning they

1 indirectly support all subsidiaries or directly support the operation of the
2 applicable service company. The Cost Allocation Manuals provide a more detailed
3 explanation of the treatment of direct and indirect costs.

4 **Q. HOW ARE THESE SERVICES BILLED TO BLACK HILLS**
5 **CORPORATION'S DIFFERENT SUBSIDIARIES?**

6 A. The cost of services that can be directly assigned to a subsidiary are billed directly
7 to that business unit. This is true for all of Black Hills Corporation's subsidiaries.
8 The indirect costs that are attributable to more than one business unit are allocated
9 based on a formula that is designed to result in a fair and reasonable allocation for
10 those costs.

11 **Q. DO THESE ALLOCATIONS OF INDIRECT COSTS RESULT IN A FAIR**
12 **COST BEING BILLED TO BLACK HILLS POWER?**

13 A. Yes. The methods used by the Service Company and Utility Holding were
14 established by reviewing relevant cost factors and are consistent with industry
15 practice in allocating common costs. In addition, services that are identified to a
16 specific project or company are directly billed to that project or company. The
17 combination of assigning direct costs for identifiable expenses and allocation of
18 indirect costs fairly and accurately represents Black Hills Power's share of the
19 costs of Service Company and Utility Holding in the provision of services to
20 Black Hills Power.

1 **Q. ARE THERE ANY OTHER FACTORS AFFECTING THE COSTS**
2 **CHARGED BY EITHER THE SERVICE COMPANY OR UTILITY**
3 **HOLDING?**

4 A. Yes. The FERC and North American Electric Reliability Corporation (NERC)
5 requirements have increased the costs associated with regulated reporting,
6 compliance, corporate governance, and outside services. Other factors that have
7 and will continue to impact the costs of providing utility service include
8 significant increases in health care and other benefit costs. These costs continue to
9 increase year to year and as appropriate are directly charged or allocated to the
10 affiliate receiving the benefit of the services using the methodologies discussed
11 above.

12 **Q. DOES BLACK HILLS POWER PROVIDE SERVICES TO ITS**
13 **AFFILIATES?**

14 A. Yes. Black Hills Power provides engineering and operations support for other
15 affiliated regulated and non-regulated companies.

16 **Q. HOW ARE THE COSTS FOR THESE SERVICES TRACKED?**

17 A. Black Hills Power bills its affiliates for services on an "at cost" basis. Using a
18 work order system, Black Hills Power is able to charge its material and labor costs
19 to affiliates for work performed on behalf of those affiliates. Utilizing this system,
20 Black Hills Power does not recognize any expense for these services or materials
21 as they are charged directly to the affiliate.

1 **VI. FINANCIAL INTEGRITY OF BLACK HILLS POWER**

2 **Q. PLEASE EXPLAIN THE CORPORATE FINANCE PHILOSOPHY OF**
3 **BLACK HILLS POWER.**

4 **A.** The corporate philosophy of Black Hills Power is the same philosophy established
5 by Black Hills Corporation. That corporate philosophy is that Black Hills Power
6 must maintain financial integrity and its ability to access capital as needed at a
7 reasonable cost. Financial integrity is critical to Black Hills Power's ability to
8 satisfy its obligation to supply safe and reliable electric services. Black Hills
9 Power defines financial integrity as the financial stability necessary to weather the
10 peaks and valleys of business cycles, volatility in financial markets and interest
11 rates, and unanticipated changes in operational requirements, all of which may
12 strain an organization's ability to finance expenditures and provide quality
13 service. A strong financial position provides the financial flexibility necessary to
14 meet the ongoing demand for utility services. Black Hills Power is conservative in
15 its financial philosophy and only takes on risk where appropriate and reasonable.
16 Even with a conservative corporate finance philosophy, no corporation is insulated
17 from market forces, credit crunches, and other financing difficulties that cannot be
18 foreseen or avoided. In those situations, Black Hills Power follows the guidelines
19 of prudence and reasonableness in evaluating its credit and financing options.

1 **Q. WHAT IS BLACK HILLS POWER'S PROFORMA CAPITAL**
2 **STRUCTURE?**

3 A. Black Hills Power's witness, Dr. William Avera, provides a detailed analysis in
4 support of the recommended capital structure in his testimony. However, my
5 testimony supports the proforma capital structure for Black Hills Power of 52
6 percent equity and 48 percent debt.

7 **Q. HOW DO INVESTORS EVALUATE A COMPANY'S FINANCIAL**
8 **INTEGRITY?**

9 A. Dr. Avera will cover this topic in greater detail; however, investors generally rely
10 on nationally recognized credit rating services to evaluate a company's financial
11 integrity and to inform them of the company's current financial position. Three
12 nationally recognized credit rating services are Moody's Investors Service
13 ("Moody's"), Standard and Poor's ("S&P"), and Fitch Ratings ("Fitch"). As of
14 August 2009, Black Hills Power's senior secured debt is respectively rated A3 by
15 Moody's, BBB by S&P, and A- by Fitch. Each credit rating agency rates Black
16 Hills Power with a "stable" outlook.

17 **Q. HOW DO RATING AGENCIES PERFORM THIS FUNCTION?**

18 A. The credit rating services issue guidelines that all companies must follow. Those
19 credit rating services generally require a company to provide detailed financial and
20 operational information to rating agencies for their analysis before issuing credit
21 ratings for the company's securities. As noted below, these credit rating agencies
22 compare quantitative measures of a company's financial performance, as well as a

1 qualitative assessment of the company's risks, (such as management, forecasts,
2 and regulatory climate) to their guidelines to rate the company and determine the
3 investment attributes of its debt securities. The credit ratings given by these
4 agencies provide important information to creditors, investors, vendors and
5 counterparties regarding Black Hills Power's creditworthiness.

6 **Q. WHAT CRITERIA DO RATING AGENCIES USE IN EVALUATING A**
7 **UTILITY?**

8 A. As noted by Dr. Avera, the ratings evaluation process includes an analysis of both
9 qualitative and quantitative factors. There are several steps in the ratings
10 evaluation process. For example, one step is to assess the extent of a "regulated"
11 company's exposure to unregulated businesses. The strongest position is enjoyed
12 by those companies operating in a wholly regulated business. Another step in the
13 methodology is to assess the credit support that is gained from operating within a
14 particular regulatory framework. The rating agencies also consider the exact level
15 of risk posed by the business. These criteria and others established by the credit
16 rating agencies then lead to an overall assessment of the qualitative business risk
17 of the company's activities.

18 As part of the quantitative assessment of a given entity, the rating agencies will
19 review numerous financial ratios of a given entity. Such ratios will be used to
20 review trends over various periods of time within a given entity, as well as to
21 provide comparisons among other companies in a given industry, or among
22 various industry averages.

1 For example, Moody's has identified four areas that are considered most useful in
2 completing analysis for electric utility companies. They are as follows: (1)
3 Regulated Framework, (2) Ability to Recover Costs and Earn Returns, (3)
4 Diversification and (4) Financial Strength and Liquidity. By maintaining good
5 credit ratings, Black Hills Power achieves better credit terms and lower cost of
6 debt which directly benefits our customers.

7 **Q. WHAT IS THE FINANCIAL SOUNDNESS OF BLACK HILLS POWER?**

8 A. The financial integrity of Black Hills Power is sound. The goal of Black Hills
9 Power is to maintain and, if possible, improve its credit metrics and credit ratings.
10 If Black Hills Power's credit rating is downgraded, that will impact its ability to
11 obtain short and long-term financing, the cost of such financing, and vendor
12 payment terms, including collateral requirements.

13 As a means of protecting its credit ratings, Black Hills Power generally maintains
14 and will continue to maintain a capitalization level (GAAP basis) of
15 approximately 45—50% debt and expects to continue this level of capitalization in
16 the future. Exhibit ASC- 5 shows Black Hills Power's key credit ratings.

17 **Q. HOW DOES THIS FINANCE PHILOSOPHY AFFECT THE RETURNS**
18 **THAT EQUITY INVESTORS EXPECT?**

19 For a company to attract equity capital, the potential investor must believe that the
20 company will earn a return that exceeds the cost of capital. If a company earns
21 less than its cost of capital, value is destroyed for the shareholders, and
22 consequently, the ability to raise additional capital for future projects declines.

1 The components of cost of capital include both cost of debt and the cost of equity.
2 The cost of equity is impacted by a number of factors, including the risk premium
3 investors expect above the long-term U.S. Treasury Rates, the market risk of the
4 company, the industry risk premium, the size of market capitalization, and the
5 ratio of debt to total capitalization. The market meltdown in the fourth quarter of
6 2008 increased risk the premium investors need to attract capital, which increased
7 the cost of equity for all companies, including Black Hills Power. Black Hills
8 Power believes that its cost of equity capital is 11.50% and therefore is requesting
9 rates to support that return. If Black Hills Power earns less than 11.50% on its
10 equity capital component, its shareholders will not meet their return expectations,
11 and consequently, access to capital markets will be diminished. I believe the
12 philosophy of Black Hills Power is consistent with the opinion of Dr. Avera.

13 **Q. HOW DO THE CREDIT RATING AGENCIES AFFECT THE**
14 **COMPANY'S ABILITY TO ISSUE DEBT?**

15 A. The ratings of credit agencies affect a company's ability to issue debt in a couple
16 of ways. First, the lower the rating, the greater the risk premium required from
17 those willing to invest in a company. Second, a low rating also limits the number
18 of potential investors interested in a company's debt, which reduces the market for
19 the company's debt. Both of these circumstances tend to increase the overall cost
20 of debt to a company.

1 **Q. WHY IS THIS IMPORTANT TO BLACK HILLS POWER?**

2 A. Access to capital is important to refinancing and to provide additional funds for
3 expansion of plant and the potential acquisition of additional generation for Black
4 Hills Power. In addition, as noted above, credit ratings impact vendor payments,
5 including collateral requirements.

6 **Q. DOES BLACK HILLS POWER INTEND TO ISSUE BONDS?**

7 A. Yes. Black Hills Power anticipates issuing in October 2009 \$180 million in first
8 mortgage bonds at an interest rate of approximately 6.75 percent.

9 **Q. HOW DOES THIS COMPARE TO OTHER LONGER TERM DEBT OF**
10 **BLACK HILLS POWER?**

11 A. An interest rate of 6.75 percent for first mortgage bonds is the lowest interest rate
12 of any long term debt of Black Hills Power.

13 **Q. WHAT IS THE PURPOSE OF THIS BOND ISSUANCE?**

14 A. The proceeds of this offering will be used to fund capital expenditures for Black
15 Hills Power, including construction costs related to the Wygen III facility. In
16 addition, the proceeds of this bond offering will fund the approximate \$30 million
17 maturity of Black Hills Power Series AC, 8.06 percent first mortgage bonds due in
18 February 2010, and to fund the refinance of approximately \$20.5 million in Black
19 Hills Power first mortgage bonds, as follows: 1) Series Y bonds (\$2.2MM at 9.49
20 percent interest, callable at 102) and Series X bonds (\$18.3MM at 9.35 percent
21 interest, callable at 104).

1 **VII. CAPITAL STRUCTURE**

2 **Q. WHAT IS THE CAPITAL STRUCTURE PROPOSED FOR BLACK HILLS**
3 **POWER?**

4 A. The Company proposes a capital structure of 52 percent common stock equity and
5 48 percent debt.

6 **Q. WHY IS THIS CAPITAL STRUCTURE APPROPRIATE FOR BLACK**
7 **HILLS POWER?**

8 A. As Dr. Avera testifies, this capital structure is appropriate because of the financial
9 position and relative size of Black Hills Power to support utility operations, to
10 serve its customers with the appropriate capacity, for replacement and expansion
11 of assets used to provide power, to maintain liquidity, and to attract cost effective
12 sources of capital for refinancing plant improvement and growth.

13 **VIII. COST OF DEBT**

14 **Q. WHAT IS THE COST OF DEBT FOR BLACK HILLS POWER?**

15 A. The projected cost of debt for Black Hills Power is 6.85 percent.

16 **Q. HOW DID YOU DETERMINE THE COST OF DEBT FOR BLACK HILLS**
17 **POWER?**

18 A. Reference is made to Statement G, page 3.

19 Black Hills Power has a projected \$276.6 million of existing long-term debt
20 outstanding as of May 31, 2010 based on actual debt, together with the expected
21 debt to be issued.

1 The average cost of long-term debt is determined by taking the weighted average
2 of the amount of the individual debt issue components and their respective interest
3 rates (adjusted for issuance costs).

4 **Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL**
5 **REQUESTED FOR BLACK HILLS POWER?**

6 A. The weighted average cost of capital requested for Black Hills Power incorporates
7 the cost of equity of 11.50 percent, the weighted average embedded cost of debt of
8 6.85 percent, and a capital structure of 52 percent equity and 48 percent debt
9 financing. This calculation results in a weighted average cost of capital of 9.27
10 percent. The result is presented in Exhibit ASC-6.

11 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

12 A. Yes.