Direct Testimony
Richard C. Loomis

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

NONE

I. 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") as Vice President, Operations.

Q. 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 of 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 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. WOULD YOU PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED TO BLACK HILLS POWER'S SOUTH DAKOTA ELECTRIC OPERATIONS?

A. I am responsible for financial and operational performance of Black Hills Power's electric operations in the State of South Dakota. I directly oversee state operating functions, including electric distribution network operations, maintenance, construction, local customer service, customer relations and community relations. I am indirectly involved in the oversight of certain other functions that are centralized within Black Hills Corporation, and provide support to South Dakota electric network operations. Examples of central functions include regulatory and legislative affairs, human resources, IT, and customer service call center functions.

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 provide an overview of Black Hills Power's business in South Dakota, including its service territory, assets, customer classes and loads. I will also provide a summary of Black Hills Power's history and strong focus on providing safe, reliable service to its customers. I will also discuss a pro forma adjustment related to Black Hills Power's employee workforce. Finally, I will briefly discuss the Demand Side Management Study being completed by a third party consultant.

III. BUSINESS OVERVIEW OF BLACK HILLS POWER

Q. PLEASE BRIEFLY DESCRIBE BLACK HILLS POWER'S HISTORY.

A. Black Hills Power and its predecessor companies have been providing electric power to the Black Hills region since 1883, when Pilcher Electric Light Co. was formed by early pioneers in Deadwood. Black Hills Power and Light was formed in 1941 through the purchase and combination of several existing electric utilities throughout the Black Hills. Headquartered in Rapid City, today, Black Hills Power is a wholly owned subsidiary of Black Hills Corporation and is a division within Black Hills Corporation's Utilities Business Segment.

Q. PLEASE BRIEFLY DESCRIBE BLACK HILLS POWER'S BUSINESS.

A. Black Hills Power is a regulated electric utility engaged in the generation, transmission and distribution of electricity to approximately 66,000 customers

(69,000 customers including private area lighting) in western South Dakota, northeastern Wyoming, and southeastern Montana with a service territory of approximately 9,300 square miles. Approximately 90 percent of Black Hills Power's retail electric revenues during the 12 months ended June 30, 2009 were generated in South Dakota.

Q. PLEASE DESCRIBE BLACK HILLS POWER'S ELECTRIC UTILITY PROPERTIES.

A. The assets utilized by Black Hills Power to provide service to customers fall into three primary classes: Generation (also known as Production), Transmission and Distribution. Each of these asset classes are described in more detail below.

Generation Assets

Black Hills Power's ownership interests in electric generation plants as of December 31, 2008 were as follows:

Unit	Fuel Type	Location	Ownership Interest %	Gross Capacity (MW)	Year Installed
Neil Simpson II	Coal	Gillette, WY	100	90.0	1995
Wyodak [(1)]	Coal	Gillette, WY	20	72.4	1978
Osage	Coal	Osage, WY	100	34.5	1948-1952
Ben French	Coal	Rapid City, SD	100	25.0	1960
Neil Simpson I	Coal	Gillette, WY	100	21.8	1969
Neil Simpson CT	Gas	Gillette, WY	100	40.0	2000
Lange CT	Gas	Rapid City, SD	100	40.0	2002
Ben French Diesel #1-5	Oil	Rapid City, SD	100	10.0	1965
Ben French CTs #1-4	Gas/Oil	Rapid City, SD	100	100.0	1977-1979

[1] Wyodak is a 362 MW mine-mouth coal-fired plant owned 80 percent by PacifiCorp and 20 percent (or 72.4 MW) by Black Hills Power

Witnesses Thomas M. Ohlmacher, Jacqueline A. Sargent and Jill S. Tietjen discuss various aspects of these generation plants in their testimony.

Transmission Assets

Black Hills Power's electric transmission system is composed of high voltage (230KV) transmission lines. The high voltage transmission facilities of Black Hills Power, Basin Electric Power Cooperative, and Powder River Energy Corporation are referred to as the Common Use System ("CUS"). BHP manages and administers the CUS pursuant to a joint open access transmission tariff approved by the Federal Energy Regulatory Commission ("FERC").

The CUS facilities are under the jurisdiction of FERC pursuant to the Federal Power Act ("FPA"). Section 205 of the FPA requires FERC to set the transmission rates that Black Hills Power is allowed to charge for the transmission of electricity over its transmission facilities. FERC oversight ensures that the transmission rates are just and reasonable. Black Hills Power's current transmission rates were approved by FERC effective January 1, 2009. As a result, Black Hills Power's South Dakota customers pay their allocated share of the transmission charges under the joint open access transmission tariff approved by FERC.

Black Hills Power also owns 35 percent of a transmission tie that interconnects the Western and Eastern transmission grids, which are independently operated transmission grids serving the western United States and eastern United States, respectively. This transmission tie, which is 65 percent owned by Basin Electric,

provides transmission access to both the Western Electricity Coordinating Council region in the West and the Mid-Continent Area Power Pool region in the East. This transmission tie allows Black Hills Power to buy and sell energy in the Eastern grid without having to isolate and physically reconnect load or generation between the two transmission grids, thus enhancing the reliability of our system.

Distribution Assets

As of December 31, 2008 Black Hills Power owned and operated 2,834 line miles of distribution facilities. Additional distribution assets include poles, transformers, meters, and other related equipment.

Q. WHAT ARE BLACK HILLS POWER'S HIGHEST SUMMER AND WINTER PEAK LOADS?

A. Black Hills Power's all time peak load of 430 megawatts was reached in July 2007, and a winter peak load of 407 megawatts was reached in December 2008.

Q. WHAT IS BLACK HILLS POWER'S GENERATING CAPACITY?

A. As shown on the previous table, on December 31, 2008, Black Hills Power owned 433.7 megawatts of electric utility net generating capacity and purchased an additional 50 megawatts under a long-term agreement expiring in 2023.

Q. PLEASE PROVIDE A BREAKDOWN OF BLACK HILLS POWER'S CUSTOMER CLASSES AND CUSTOMER COUNTS, RESPECTIVELY.

A. At June 30, 2009 Black Hills Power provided service to the following number of retail customers in South Dakota by customer class.

South Dakota

Retail Customers

Residential	51,939
Commercial	11,689
Industrial	276
Other	196
Total	64,100

Q. WHAT ARE YOUR LONG TERM WHOLESALE CONTRACTS?

A. Black Hills Power has agreements with Montana-Dakota Utilities Company to serve Sheridan, Wyoming, the City of Gillette, Wyoming, and the Municipal Energy Agency of Nebraska, also known as MEAN. Thomas M. Ohlmacher will discuss these long term contracts in more detail in his testimony**.**

IV. CUSTOMER SERVICE AND RELIABILITY

Q. PLEASE DESCRIBE HOW BLACK HILLS POWER MEASURES RELIABILITY OF ITS DELIVERY SYSTEM?

A. Black Hills Power utilizes generally accepted reliability indices, as defined by the Institute of Electrical and Electronic Engineers (IEEE) in its standard number 1366-2003, "Guide for Electric Power Distribution Reliability Indices." Generally speaking, the most often used performance measurement for a sustained interruption is the System Average Interruption Duration Index (SAIDI). SAIDI measures the duration of an interruption for an "average time" customers are

interrupted during a given time period. Other standard measures are utilized to help target expenditures for capital improvements to improve reliability measures.

Q. PLEASE DESCRIBE BLACK HILLS POWER'S HISTORICAL RELIABILITY PERFORMANCE.

A. Black Hills Power participates in an annual reliability benchmarking study conducted by IEEE. Among over 60 participating utilities, Black Hills Power consistently ranks as one of the top 25 percent most reliable utilities of the companies participating in this industry survey. The following table sets forth a summary of Black Hills Power's performance relative to the IEEE benchmark survey for the years 2005, 2006 and 2007.

SAIDI Performance

(Average annual customer outage duration in minutes)

	2005	2006	2007	2008
Black Hills Power	57.18	73.68	50.21	57.04
IEEE Top Quartile	98.27	105.37	103.90	**

** At the time of this filing, 2008 survey data is not yet available from IEEE.

Based on 2008 data, Black Hills Power customers had, on average, power available 99.99 percent of the time.

Q. WHAT EMPHASIS DOES BLACK HILLS POWER PLACE ON CUSTOMER SERVICE SATISFACTION LEVELS?

A. Customer service has been and remains a very high priority for Black Hills Corporation, and for all employees within the Black Hills Power electric utility.

Company and departmental goals include a customer satisfaction component. One way in which Black Hills Power has continued its focus on customer service is to keep local customer offices open for customer walk-in payments and other local services such as requests to start or stop service. Given the size of the communities we serve, the historical level of walk-in activity experienced, and the emphasis placed on being a community partner, Black Hills Power has somewhat "bucked the trend" of closing local customer offices.

Customer offices remain open in the following South Dakota communities: Rapid City, Sturgis, Deadwood, Spearfish, Newell, Belle Fourche, Custer, and Hot Springs. A local office is also open in Newcastle, Wyoming. We believe that our focus on customer service is reflected well in our ability to maintain a high level of customer satisfaction.

Black Hills Power recently had the opportunity to enhance and expand its customer service model. As a result of its conversion to a new customer information system that is now common to the regulated utilities of Black Hills Corporation, Black Hills Power is able to provide call center customer service support 24 hours a day, seven days a week.

Q. DOES BLACK HILLS POWER CONSISTENTLY MEASURE CUSTOMER SERVICE AND SATISFACTION LEVELS?

A. Yes, in a number of ways. First, internally performed customer satisfaction surveys are used as a tool to gather customer feedback on Black Hills Power's performance. Surveys are regularly sent to: a) new customers; b) customers that

receive or participate in certain services or programs (e.g., heat pumps); and c) our customers within the General Service – Large rate class, as well as industrial contract customers on an annual basis. For 2007, a total of 680 survey responses were received from our customers, with 98 percent of all responses reflecting a positive view of Black Hills Power. A positive indicator is considered to be a response of Good, Very Good or Excellent. For 2008, a total of 1,462 survey responses were received from our customers, again with 98 percent of all responses indicating a favorable opinion of Black Hills Power.

A second important indicator of customer satisfaction is the number of formal complaints filed with this Commission and the number of contacts made with Commission staff. Set forth below is a summary of customer contacts and formal complaints made to this Commission for the years 2007, 2008 and year-to-date June 30, 2009.

South Dakota Public Utilities Commission

Customer Contacts and Formal Complaints

	2007	2008	2009 YTD
Contacts	65	47	25
Formal Complaints	0	1	0

Given the scope of our utility operations, and the reliance of our customers on our services, we believe the low number of Commission contacts and formal Commission complaints speak well of Black Hills Power's focus on customer service.

Third, Black Hills Power has also utilized an external party to conduct customer service surveys. In 2006, Black Hills Power contracted with Central Surveys, Inc. to assess residential customer opinions about Black Hills Power. The report indicates that "Generally, residential customers of Black Hills Power tend to have favorable opinions about the Company" and gave the Company a 98 percent plus satisfaction rate.

Finally, in July 2009 Black Hills Power enlisted The Eidex Group to conduct a survey of Public Officials to further assess its performance as a community partner. Surveys were mailed by The Eidex Group to 261 community leaders in the Black Hills area, and 116 responses (44 percent) were received. Community leaders rated Black Hills Power on a variety of categories. It is worthwhile to note that 84 percent of respondents gave ratings of 4 or 5 on a 5-point scale in terms of Black Hills Power's performance as a residential service provider. In addition, 86 percent gave ratings of 4 or 5 in terms of our performance as a commercial service provider. Finally, 83percent of respondents also rated Black Hills Power's relationship with its communities as either 4 or 5 on a 5-point scale.

Q. HOW DOES BLACK HILLS POWER DEMONSTRATE ITS COMMITMENT TO THE COMMUNITIES AND CUSTOMERS IT SERVES?

A. As a community partner, Black Hills Power remains active in numerous civic and community events through economic development initiatives, financial contributions, and the involvement of its dedicated employees. Black Hills Power

has been involved in a broad range of projects to improve its local communities, including active involvement in local United Way campaigns, Power of Trees tree planting programs, Home Weatherization initiatives in coordination with local social service agencies, and many other community initiatives across our service territory.

V. PRO FORMA ADJUSTMENT

Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT BLACK HILLS POWER IS PROPOSING RELATED TO ITS EMPLOYEE WORKFORCE?

A. At the end of the test year, Black Hills Power had four vacant positions in its workforce. In order to meet the needs of operating Black Hills Power's generating plants and to continue to meet the service needs of our customers, Black Hills Power plans to replace these positions prior to the end of 2009. The four positions are: 1) a Customer Service Representative for the local office in Sturgis (this position has been filled); 2) a Construction Services Representative for the Northern Hills service area; 3) a System Control Supervisor in Rapid City; and 4) a Journeyman Electrician position in Rapid City. In addition to these replacements, Black Hills Power plans to add five employees to the workforce prior to the end of 2009, and seeks recovery of related expenses through this pro forma adjustment. As with the replacement positions described above, these positions are necessary to meet the workforce needs of our expanded generation complex in Gillette, Wyoming and to provide service to customers within our

service territory. The five positions are: 1) a Plant Operator at the Neil Simpson Energy Complex ("NSEC") in Gillette; 2) an Electric Control Engineer at NSEC; 3) a Trainer-Maintenance position for Black Hills Power's generation plants in Gillette; 4) an Instrument Technician for NSEC; and 5) a new Journeyman Electrician position in Rapid City.

VI. DEMAND SIDE MANAGEMENT ACTIVITIES

Q. HAS BLACK HILLS POWER ACTIVELY PROMOTED ENERGY EFFICIENCY AND DEMAND SIDE MANAGEMENT PROGRAMS?

A. Yes, it has. Black Hills Power has consistently promoted energy efficiency in advertising and through various programs, including rate design and customer rebate programs.

Recognizing the importance of a continued focus on demand side management options for customers, and the importance of reducing the environmental impact of energy production and consumption, Black Hills Power has contracted with Applied Energy Group to conduct a review of our existing programs and develop additional programs to deliver economic benefits to customers. That study began in June 2009 and is currently being finalized. The program consists of several steps, including a review and analysis of the potential energy savings available to customers, determination of the achievable potential for energy savings programs, and a determination of the economic feasibility of such programs.

VII. SUMMARY

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY?

A. Black Hills Power has been, and will continue to be, a very good operator of its electric utility system, with a high level of focus on providing safe, reliable, quality service to our customers in South Dakota. Black Hills Power emphasizes compliance with all regulatory rules and policies, and works diligently to attract, train and retain employees dedicated to planning, designing, constructing, operating and maintaining its electric utility system. Black Hills Power has built a strong tradition of building and maintaining positive relationships with its customers, communities and regulators and will continue to do so in the years ahead.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.