

**Direct Testimony and Exhibit**

**Kyle D. White**

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

**In the Matter of the Petition for Declaratory  
Ruling of Black Hills Power, Inc.**

**Docket No. EL 11- \_\_\_\_\_**

**April 28, 2011**

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## EXHIBIT

Exhibit KDW – 1                      Energy Information Administration Annual Energy Outlook  
2011

1 **I. INTRODUCTION**

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

3 A. Kyle D. White, 625 Ninth Street, P.O. Box 1400, Rapid City, South Dakota.

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

5 A. I am employed by Black Hills Service Company, LLC and I am the Vice President  
6 of Resource Planning and Regulatory Affairs for Black Hills Power, Inc.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS**  
8 **BACKGROUND.**

9 A. I graduated with honors from the University of South Dakota in May of 1982 with  
10 a Bachelor of Science degree in Business Administration, majoring in  
11 management. In August of 1989, I graduated with a Masters degree in Business  
12 Administration, also from the University of South Dakota. I have been employed  
13 by Black Hills in rate-and marketing-related work since July of 1982 and have  
14 been in my present position since February of 2011. In addition to on-the-job  
15 training, I have attended numerous seminars, trade association meetings, and  
16 regulatory conferences covering a variety of utility-related subjects.

17 **II. PURPOSE OF TESTIMONY**

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

19 A. The purpose of my testimony is to support the Company's Petition for a  
20 Declaratory Ruling regarding the Company's proposal to construct and own wind  
21 turbines and associated balance of plant and other facilities of a new wind facility

1 with an expected nameplate capacity of 20 MW (the “BHP Wind Project” or  
2 “Project”).

### 3 III. WIND DEVELOPMENT OPPORTUNITY

#### 4 Q. PLEASE DESCRIBE THE BHP WIND PROJECT.

5 A. The BHP Wind Project is located approximately eight miles north of Belle  
6 Fourche, South Dakota. This location is approximately three miles east of Black  
7 Hills Power’s 69kV radial line extending to Belle Creek, Montana which results in  
8 the Company only having to construct three miles of 69kV line to interconnect the  
9 Project.

10 The Project has been developed over the past two years by a partnership between  
11 Renewable Solutions and PNE Wind USA, Inc. (collectively referred to as the  
12 “Developer”). The Developers have secured wind easements with two landowners  
13 for approximately 4,200 acres of developable land. The Developer has also  
14 secured the necessary transmission and access rights-of-way for the Project. The  
15 Company and the Developer expect to enter into an Option to Purchase Agreement  
16 regarding the BHP Wind Project (“Option to Purchase”) in the very near future.  
17 The Option to Purchase is discussed in the testimony of Richard Kinzley.

#### 18 Q. DOES THE COMPANY HAVE PLANS TO EXPAND ON THIS SITE IN 19 THE FUTURE?

20 A. The site does have an expansion capability of up to approximately 30 megawatts  
21 in addition to the 20 megawatts that the Company plans to initially build. The  
22 Developers have secured the right to expand with the necessary landowners and

1 will assign that future development right to the Company as part of the Option to  
2 Purchase.

3 **Q. IF THE COMPANY DOES NOT ACT ON THIS OPPORTUNITY NOW,**  
4 **WILL THIS SITE NO LONGER BE AVAILABLE?**

5 A. The proposed Option to Purchase will expire eight months following execution.  
6 Following that date, the Developer will be free to market the property to other  
7 interested parties.

8 **Q. ARE THERE ANY OTHER REASONS THAT MAKE ACTING ON THIS**  
9 **OPPORTUNITY NOW ATTRACTIVE?**

10 A. There are a number of reasons that make this opportunity attractive to the  
11 Company. As discussed below in more detail, turbine prices, the production tax  
12 credits and bonus depreciation treatment currently available are all incentives for  
13 the Company to act on this opportunity now. In addition to those reasons, the  
14 Company needs to act before the site studies or other authorizations either expire  
15 or grow stale. For example, the environmental attributes of the site or the  
16 protected species list may change such that the site is no longer able to be  
17 developed for a wind project. In addition, due diligence such as title and survey  
18 work on the property has all been completed and would need to be re-done after a  
19 lapse of time in order to be relied upon.

1 **IV. FEDERAL AND STATE INITIATIVES**

2 **Q. WHAT FEDERAL INITIATIVES ARE CURRENTLY IN EFFECT THAT**  
3 **CAUSE THE COMPANY TO EVALUATE ITS RESOURCE MIX?**

4 A. The Industrial Boiler National Emission Standards for Hazardous Air Pollutants  
5 (“Boiler Standards”) were finalized on March 21, 2011 by the Environmental  
6 Protection Agency (“EPA”). These standards will likely contribute to the closure  
7 of three coal generating plants owned 100% by the Company. The closure of  
8 these plants is not mandated by the standards, however, the cost to retrofit the  
9 plants of this age and size to comply with these new standards is expected to be  
10 prohibitive. These same older coal plants would likely also be a likely target of  
11 the EPA’s “Regional Haze” requirements within the next ten years if still in  
12 operation.

13 **Q. WHAT OTHER FEDERAL INITIATIVES IS THE COMPANY**  
14 **FOLLOWING?**

15 A. The Company has been aware of the federal government’s desire to regulate  
16 carbon emissions for many years. In April of 2007, the U.S. Supreme Court  
17 handed down a decision that the EPA has the authority to regulate carbon and  
18 other greenhouse gases. A ‘carbon tax’ or ‘cap and trade’ program is a possible  
19 outcome of this decision, however, nothing has been passed to date. If it is, the  
20 Company anticipates that the cost of the tax would cause a significant increase in  
21 the cost of its operations which would ultimately be paid by customers.

1 In addition, legislation was recently introduced by Senators Mark Udall  
2 (Colorado) and Tom Udall (Utah) that would enact a federal Renewable Energy  
3 Standard (RES) which would require utilities to generate 25% of their electricity  
4 from renewable energy sources by 2025. The bill phases in the requirement.  
5 While this legislation is likely to go through many iterations before it may be  
6 enacted, it is probable that the federal government will continue to pursue this or  
7 similar legislation designed to promote the addition of renewable resources in  
8 utility energy portfolios.

9 **Q. HOW WILL INVESTMENT IN THE BHP WIND PROJECT POSITION**  
10 **THE COMPANY IF SOME OF THESE FEDERAL INITIATIVES ARE**  
11 **ENACTED?**

12 A. Intermittent resources, such as wind generation, cannot replace base load  
13 generation such as coal. Natural gas generation is now the most likely resource to  
14 replace base load generation when it is needed. Those natural gas facilities will be  
15 a benefit to the Company and may complement any wind facilities the Company  
16 has on-line by providing regulation service for the wind as well as base load  
17 generation. Wind resources will serve to diversify the Company's resource mix  
18 and position the Company to comply more easily with renewable portfolio  
19 standards.

20 **Q. WHAT IS REGULATION SERVICE?**

21 A. Regulation of a bulk power system refers to the continuous balancing of resources  
22 (generation and scheduled interchange) with load. Regulation is accomplished by

1 committing on-line generation whose output is raised or lowered to meet the needs  
2 of moment-by-moment changes in actual load or other generation facilities.  
3 Regulation service is the process whereby an entity contracts to provide a  
4 corrective response to all or a portion of the moment-by-moment changes in actual  
5 load or other generation facilities of another. The entity providing the response  
6 assumes the obligation of meeting all applicable control criteria as specified by the  
7 North American Electric Reliability Corporation for itself and the entity for which  
8 it is providing the regulation service.

9 **Q. HOW DOES THE COMPANY ANTICIPATE PROVIDING THE**  
10 **REGULATION FOR THE BHP WIND PROJECT?**

11 A. The Company expects to contract with Western Area Power Administration  
12 (“Western”), under Western’s posted tariff regulations, for regulation service for  
13 the BHP Wind Project. Black Hills Power resides within the larger Western  
14 Balancing Authority, and currently benefits from Cheyenne Light Fuel and  
15 Power’s contractual agreements to purchase regulation service from Western.  
16 Black Hills Power has started the process of entering into its own regulation  
17 service agreement with Western for the BHP Wind Project.

18 **Q. WHAT STATE STATUTES ARE IN EFFECT REGARDING**  
19 **RENEWABLE OBJECTIVES?**

20 A. South Dakota has not enacted a renewable portfolio standard, however, the state  
21 has adopted a renewable, recycled, and conserved energy objective that ten  
22 percent of all electricity sold at retail within the state by the year 2015 be obtained

1 from renewable, recycled, and conserved energy sources (the “State Renewable  
2 Objective”). See SDCL 49-34A-101.

3 At the present time, approximately 6 percent of the Company’s retail electricity  
4 sales are obtained from renewable, recycled and conserved energy sources. If the  
5 BHP Wind Project is constructed to generate 20 MW, approximately 9 percent of  
6 the Company’s retail electricity sales will be obtained from renewable, recycled  
7 and conserved energy sources and put the Company in a position to more easily  
8 meet any standards that become mandatory in the future.

9 **Q. DOES THE COMPANY BELIEVE IT HAS COMPLIED WITH THE**  
10 **LANGUAGE OF THE STATE RENEWABLE OBJECTIVE?**

11 A. Yes. To date, the Company has acquired energy from renewable resources where  
12 it has made good business sense to do so. SDCL 49-34A-104 provides that before  
13 using new renewable, recycled and conserved energy to meet the objective, the  
14 retail provider shall make an evaluation to determine if the use of new renewable,  
15 recycled, and conserved energy is “reasonable and cost effective considering other  
16 electricity alternatives.” That statute further provides that after making such an  
17 evaluation and considering the state renewable energy objective, the retail  
18 provider may “use the electricity alternative that best meets the provider’s  
19 resource or customer needs.” Id. As shown in the modeling discussed in the  
20 testimony of Richard Kinzley, the Company has evaluated the costs of this Project  
21 compared to other electricity alternatives. The Company’s decision to invest in  
22 this opportunity is driven not only by those costs, but also by the Company’s

1 determination that a renewable facility is an appropriate resource alternative to  
2 satisfy its resource needs at this time. Therefore, the Company has determined  
3 that its use of renewable energy from the Project is reasonable and cost effective  
4 considering other electricity alternatives, and that use of such renewable energy is  
5 the electricity alternative that best meets the Company's expected resource and  
6 customer needs not only at this time but as the Company prepares itself for the  
7 future.

8 **Q. DID THE COMPANY EVALUATE OTHER ELECTRICITY**  
9 **ALTERNATIVES?**

10 A. Yes, the Company evaluated other electricity alternatives.

11 There are a number of electricity alternatives to wind: coal, natural gas, biomass,  
12 solar, hydro, geothermal and nuclear.

13 Hydro, geothermal and nuclear are not viable options for the Company. The  
14 Company presently purchases some hydro electric power (the City of Spearfish  
15 hydro) but additional hydro electricity is not available to the Company. Likewise,  
16 there are no viable geothermal options available to the Company. Construction of  
17 nuclear is not cost effective for small additions to generation resources and in  
18 addition, there are no plans or proposals by regional utilities to build a co-owned  
19 nuclear facility.

20 Coal may generally be less expensive than adding wind. Coal is not necessarily  
21 economical to build in 20 MW increments and the Company's capacity needs do  
22 not justify a coal addition. In addition, coal would not improve the diversification

1 of the Company's resources, and is not a good alternative in view of a possible  
2 carbon tax.

3 Natural gas generation can be less expensive than wind generation. The Company  
4 will likely be adding natural gas generation in the short to medium term. Here we  
5 have an opportunity for cost effective wind generation.

6 Coal and natural gas are not "new renewable, recycled or conserved energy" and  
7 therefore would not count towards the South Dakota renewable objective set forth  
8 in SDCL 49-34A-101.

9 Biomass was evaluated. Biomass represents an electricity alternative that would  
10 count towards the South Dakota renewable objective. Over the years, the  
11 Company has been approached regarding possible biomass projects, but the  
12 Company's analysis was that the estimated levelized cost of those possible  
13 biomass projects were more expensive than wind generation. Recent information  
14 from the Energy Information Administration confirms that the total system  
15 levelized cost of biomass is approximately 16% higher than the total system  
16 levelized cost of wind. Attached as Exhibit KDW-1 is the Energy Information  
17 Administration Annual Energy Outlook 2011 ("EIA Outlook"). In addition, the  
18 Company's analysis of biomass in Colorado indicated that the cost of biomass is  
19 higher than the 16% shown in the EIA Outlook. Therefore, with this and other  
20 information about biomass considered by the Company (including that biomass  
21 may present some of the same environmental issues relating to carbon tax, etc.),

1 the Company's evaluation is that wind is presently the better renewable alternative  
2 as compared to biomass.

3 Based upon the Company's knowledge, solar was not considered a viable  
4 electricity alternative. Solar energy would count towards the South Dakota  
5 renewable objective. Solar, however, is generally recognized as one of the most  
6 expensive electricity sources for a utility, and the EIA Outlook confirms that fact.  
7 The EIA Outlook indicates that solar is approximately 117% more expensive than  
8 wind. Therefore, solar was evaluated by the Company but clearly was not the  
9 preferable electricity alternative for the Company from a cost standpoint.

10 In summary, the Company evaluated electricity alternatives that would count  
11 towards the South Dakota renewable objective, but consistent with the Company's  
12 expectations going into the evaluation, wind was shown to be the least expensive  
13 alternative.

14 But cost is not the only factor in evaluating electricity alternatives. In evaluating  
15 energy alternatives from a non-cost standpoint, wind was shown to be the best  
16 alternative. Wind, and specifically this Project, provides a reasonable cost  
17 resource that diversifies the resource mix of the Company. It further provides a  
18 hedge against potential escalating fuel and construction costs associated with coal  
19 and gas. It also provides the Company with a hedge regarding potential federally  
20 mandated renewable portfolio standards and/or carbon taxes. The opportunity to  
21 acquire a construction ready wind location that would allow the Company to have

1 the Project in service in 2012 to take advantage of federal incentives, and the  
2 availability of regulation were also important factors considered by the Company.

3 All things considered, the addition of wind to the Company's resource mix is the  
4 alternative that best meets the Company's resource and customer needs.

## 5 V. INCENTIVES

### 6 **Q. ARE THERE FEDERAL INCENTIVES AVAILABLE NOW FOR** 7 **BUILDING RENEWABLE GENERATION?**

8 A. Yes. Production tax credits ("PTC") under Code Section 45, or, alternatively,  
9 Investment tax credits ("ITC") under Section 48 of the Internal Revenue Code of  
10 1986 ("Code") are available for the construction of renewable energy generation  
11 projects. An additional alternative was made available when, in December, 2010,  
12 the Section 1603 Treasury grant in lieu of tax credit program for specified  
13 renewable energy projects was extended one year. The 1603 Grant program was  
14 originally enacted as part of the American Recovery and Reinvestment Act  
15 ("ARRA") of 2009.

16 By receiving cash grant payments for property under section 1603, an applicant  
17 would be electing to forego tax credits under Code sections 48 (ITC) and 45 (PTC)  
18 with respect to such property for the taxable year in which the payment is made or  
19 any subsequent taxable year.

20 After reviewing the options, the Company intends to claim the PTC for the  
21 Project. The PTC provides a 10-year, inflation-adjusted production tax credit for  
22 power generated by certain types of renewable energy projects, including

1 “qualified wind facilities.” The PTCs are generated (and vest) in real time over a  
2 10-year period as the Project generates power and is based on actual energy  
3 produced by a qualifying wind facility. A “qualified wind facility” is a facility  
4 that uses wind to produce electricity for sale and is owned by the taxpayer and is  
5 originally placed into service prior to the end of 2012. The credit for 2010 was 2.2  
6 cents multiplied by the kilowatt hours of renewable electricity produced and sold  
7 by the taxpayer. That credit amount will be adjusted annually for inflation after  
8 2010. For purposes of our modeling, we used a 2.5% inflation factor. The actual  
9 inflation factor, which we believe will be close to 2.5%, will be released by the  
10 federal government annually. Section 1603 grant payments are economically  
11 advantageous when an investor does not have a sufficient “tax appetite” to  
12 currently utilize ITC or PTC on its federal income tax return to offset taxes due.  
13 When the tax appetite does not exist, the economic advantage arises from the  
14 ability to monetize the incentive faster via the available Treasury grant rather than  
15 creating an ITC or PTC carry forward that will not generate cash tax savings until  
16 a period of time in the future when taxable income and associated tax liability are  
17 sufficient to utilize such credits. The Company intends to claim the PTC rather  
18 than the ITC or the Treasury grant as the PTC creates the greatest benefit for  
19 customers in this situation.

20 **Q. HOW DOES THIS INCENTIVE BENEFIT CUSTOMERS?**

21 A. The benefit of the PTC is an immediate reduction to the cost of wind generation  
22 via a reduction in revenue requirements for tax expenses. This, in essence, will

1 result in customers saving 2.2 cents (as adjusted annually for inflation) per  
2 kilowatt hour for the electricity generated from the Project. Such flow-through  
3 treatment does not conflict with the normalization provisions of the Code and  
4 regulations associated with the ITC or Treasury grant.

5 **Q. WHAT OTHER INCENTIVES ARE AVAILABLE FOR THE PROJECT?**

6 A. For tax purposes, Black Hills Power expects to be able to claim accelerated  
7 depreciation including bonus depreciation with respect to the tax basis in the  
8 Project that will result in additional accumulated deferred income taxes (ADIT).  
9 One benefit under current law is that renewable energy equipment that uses wind  
10 to generate electricity is afforded accelerated cost recovery tax deductions over  
11 five years. Additionally, bonus depreciation is available. Pursuant to the Tax  
12 Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010  
13 (“2010 Act”), qualifying investments made after September 8, 2010, and before  
14 January 1, 2012, will be eligible for 100% bonus depreciation. For qualifying  
15 investments made during calendar year 2012, companies will be permitted to  
16 expense 50 percent of the value of the asset for tax purposes as depreciation in the  
17 first year with the remaining 50 percent subject to normal accelerated tax  
18 depreciation. Bonus depreciation does not mean that the asset gets more  
19 depreciation than any other assets; it simply means that tax depreciation is  
20 accelerated into the first year. This is an extension and expansion of the bonus  
21 depreciation provisions contained in the American Recovery and Reinvestment

1 Act of 2009. Black Hills Power expects that the Project costs will qualify for the  
2 50% bonus depreciation benefit.

3 **Q. HOW DOES BONUS DEPRECIATION BENEFIT CUSTOMERS?**

4 A. The amount of ADIT generated by using acceleration depreciation including  
5 bonus depreciation is deducted from rate base resulting in a lower revenue  
6 requirement and, consequently, reduced rates for customers. The deduction of  
7 ADIT from rate base in later years decreases as previously deferred taxes are paid  
8 to the IRS.

9 **Q. ARE THERE ANY OTHER REASONS THIS TIMING IS BENEFICIAL**  
10 **TO THE COMPANY AND ITS CUSTOMERS?**

11 A. Yes. Due to the downturn in the economy, the Company is able to procure  
12 turbines for this Project at a cost that is significantly below what it would have  
13 expected to pay prior to the downturn. In addition and as alluded to above, if a  
14 federal renewable portfolio standard is enacted, the cost to build wind projects will  
15 likely increase significantly, putting the Company in a position to have to build a  
16 renewable facility at increased costs to customers in a location that would not  
17 likely be as desirable as the site north of Belle Fourche.

18 **VI. GENERATION RESOURCES AND NEED**

19 **Q. WHAT IS THE COMPANY'S CURRENT RESOURCE MIX?**

20 A. The Company owns interests in electric generating plants with a gross capacity  
21 totaling 490.9 MW. Of that total, 300.9 MW or approximately 61% come from  
22 generating plants fueled by coal. The Osage power plant (34.5 MW) near Osage,

1 Wyoming is included in this total. Operations at the Osage power plant were  
2 suspended in 2010. The remainder of the 490.9 MW is composed of gas and oil  
3 generation.

4 **Q. IN YOUR OPINION, WHAT WILL THE COMPANY'S RESOURCE MIX**  
5 **LOOK LIKE IN THE FUTURE?**

6 A. The Company anticipates retiring some of its older coal fired generation facilities  
7 due to the Boiler Standards discussed above. These facilities would be retired on  
8 or before the compliance deadline of March 21, 2014 and include the Ben French  
9 coal unit (25 MW), Neil Simpson I coal unit (21.8 MW) and the Osage coal unit  
10 (34.5 MW). Even with these retirements, the Company will remain heavily  
11 dependent on coal.

12 **Q. PLEASE DESCRIBE THE COMPANY'S RESOURCE PLANNING**  
13 **ACTIVITIES AS THEY RELATE TO THE BHP WIND PROJECT?**

14 A. As discussed in the testimony of Richard Kinzley, the Company relied on internal  
15 modeling to support the addition of the BHP Wind Project. The Company's most  
16 recent resource plan was filed with the South Dakota Public Utilities Commission  
17 in Docket No. EL09-018. This was a combined resource plan with an affiliate  
18 company, Cheyenne Light Fuel and Power Company, completed in 2007 (the  
19 "2007 IRP"). The 2007 IRP identified wind as a possible resource addition in  
20 2012 and 2013 for the combined system. It also stated that the Company would  
21 "seek opportunities to develop economic renewable resources." The Company has  
22 done this by identifying the opportunity presented by the BHP Wind Project.

1 **Q. HOW CAN THE COMPANY JUSTIFY ADDING GENERATION THAT**  
2 **ITS CUSTOMERS WILL PAY FOR WITHOUT CUSTOMER NEED**  
3 **DRIVING THE ADDITION?**

4 A. The Company's normal practice is to add the lowest cost resource at the time that  
5 the customer load or forecasted load growth demonstrates a need for additional  
6 generation. However, in this instance, the Company is acting proactively to  
7 minimize potentially significant customer rate increases that could occur in light  
8 of the current political climate. The Company strives to do what is best for its  
9 customers and in some cases that requires stepping out of normal practice to, in  
10 effect, add a generating resource as an insurance policy, if you will, rather than as  
11 a direct effect resulting from customer need.

12 In addition, while the Company has not assumed the sale of renewable energy  
13 credits ("REC's") in its modeling, the Company believes that there is a market for  
14 REC's that it could capitalize on until the REC's would need to be retired to meet  
15 either federal or state renewable standards. Under Docket EL09-018, the  
16 Company agreed to share the profits from the sale of REC's, with customers  
17 receiving 90% of the profit and the Company receiving 10%. Therefore, the  
18 generation from the BHP Wind Project may provide another benefit to customers  
19 in the form of profits from REC sales as provided in the Company's tariffs.

1 **VII. COMMUNITY IMPACT**

2 **Q. HOW WILL THE BHP WIND PROJECT BENEFIT THE CITY OF BELLE**  
3 **FOURCHE AND BUTTE COUNTY?**

4 A. The community of Belle Fourche will see benefit during the construction of the  
5 Project. Construction workers, consultants and vendors will be on site during  
6 construction of the Project and will most likely be living in and near the  
7 community until the Project is complete. The Company expects that there will be  
8 approximately 40 people involved in the construction of the project. In addition,  
9 residents of the community will be engaged to bid on services necessary for the  
10 construction of the Project, including pouring concrete, building transmission  
11 facilities and building roads. Butte County will benefit from taxes on wind  
12 generation in accordance with South Dakota statutes.

13 **Q. HOW MANY ON-GOING JOBS WILL BE CREATED BY THE**  
14 **PROJECT?**

15 A. The Company expects that one to two on-going jobs will be created due to the  
16 Project. Black Hills Power intends to enter into an operation and maintenance  
17 agreement with the turbine manufacturer. This agreement will likely include the  
18 provision for a full time person to maintain and service the Project.

19 **Q ARE THERE ANY NEGATIVE IMPACTS TO THE COMMUNITY**  
20 **RESULTING FROM THIS PROJECT?**

21 A. The Company does not anticipate any negative impacts to the community from  
22 this Project.

1 **VIII. COSTS AND RECOVERY**

2 **Q. WHAT ARE THE ESTIMATED PROJECT COSTS?**

3 A. The capital costs of the Project are estimated to be \$38,000,000. The Project costs  
4 are discussed in more detail in the testimony of Mark Lux.

5 **Q. HOW DOES THE COMPANY PROPOSE TO RECOVER THESE COSTS?**

6 A. The Company anticipates recovering the costs related to the Project from  
7 customers following approval from the South Dakota Public Utilities Commission  
8 for rates to be effective in 2013.

9 **Q. WHAT PORTION OF THE TOTAL PROJECT COSTS WILL BE**  
10 **ALLOCATED TO SOUTH DAKOTA CUSTOMERS?**

11 A. The Company expects that approximately 90% of Project costs will be allocated to  
12 its South Dakota customers.

13 **IX. CONCLUSION**

14 **Q. PLEASE SUMMARIZE WHY THE COMPANY BELIEVES THAT THIS**  
15 **OPPORTUNITY IS REASONABLE AT THIS TIME?**

16 A. The Company believes that it is the right decision to add renewable resources now.  
17 Federal initiatives, federal incentives, state initiatives, market factors and  
18 opportunity all as set forth in this testimony make this an optimal time for the  
19 Company to invest in a renewable project. As stated in our petition, Black Hills  
20 Power is being proactive in its evaluation of whether to add renewable generation  
21 to its supply side resources.

1 The Company is requesting a conclusive ruling from the South Dakota Public  
2 Utilities Commission (the “Commission”) that the Company properly evaluated  
3 and determined under SDCL 49-34A-101 and 104 that the use of the BHP Wind  
4 Project to provide renewable wind energy is reasonable and cost effective  
5 considering other electricity alternatives, and that the BHP Wind Project is an  
6 appropriate resource to meet the resources of the Company and to serve  
7 customers’ needs by diversifying its resource portfolio and potentially protect  
8 customers from a changing energy environment and associated costs.

9 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

10 A. Yes.