

Direct Testimony
Kyle D. White

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. EL12-____

December 17, 2012

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EXHIBITS

None

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. Kyle D. White, 625 Ninth Street, Rapid City, South Dakota, 57701.

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

5 A. I am Vice President of Regulatory Affairs for Black Hills Corporation.

6 **Q. FOR WHOM ARE YOU TESTIFYING ON BEHALF TODAY?**

7 A. I am testifying on behalf of Black Hills Power, Inc. (“Black Hills Power” or
8 “Company”).

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS**
10 **BACKGROUND.**

11 A. I graduated with honors from the University of South Dakota in 1982 with a
12 Bachelor of Science degree in Business Administration, majoring in management.
13 In 1989 I graduated with a Masters degree in Business Administration, also from
14 the University of South Dakota. I have been employed by Black Hills Corporation
15 in rate-related, resource planning and marketing-related work since 1982 and have
16 been in my present position since August 2012. For much of my career, I was
17 responsible for the preparation of Black Hills Power’s rate studies and filings. In
18 addition to on-the-job training in utility rate making, I have attended numerous
19 seminars, trade association meetings, and regulatory conferences covering a
20 variety of subjects including utility rate-making principles. In addition, I am Vice
21 Chair and a founding board member of the Wyoming Infrastructure Authority

1 whose purpose is to increase opportunities for generation development by
2 increasing transmission capabilities within each state.

3 **II. PURPOSE OF TESTIMONY**

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

5 A. The purpose of my testimony is to: provide support for the Statement R
6 calculation (pricing for the Coal Supply Agreement); review and provide
7 additional support for the proposed rate increase; review jurisdictional allocations
8 and class cost of service allocations, including rate design; and to review the
9 phase-in-plan that the Company has filed.

10 **III. STATEMENT R CALCULATION**

11 **Q. PLEASE DISCUSS THE STATEMENT R CALCULATION.**

12 A. Black Hills Power has a Coal Supply Agreement with Wyodak Resources
13 Development Corporation (“Wyodak”), a non-regulated affiliate, to provide coal
14 to Black Hills Power’s coal generation fleet. The pricing for the Coal Supply
15 Agreement is based on what the Company refers to as “Statement R” pricing
16 because it has historically corresponded to the Statement in the rate case
17 application that details the coal price calculation for coal purchased from the
18 utility’s affiliate. This methodology is long-standing. In addition to Black Hills
19 Power, this methodology has been accepted for pricing coal transactions with
20 Cheyenne Light, Fuel and Power Company (“Cheyenne Light”), the Municipal
21 Energy Agency of Nebraska, the City of Gillette, and Montana-Dakota Utilities.

1 Under this methodology, Black Hills Power's coal costs are determined by
2 calculating the amount that allows Wyodak to recover its cost of service related to
3 the coal sales to Black Hills Power, plus a return on investment. That return is the
4 average interest rate for new, long-term A-rated utility bonds issued during the
5 calendar year for which the calculation is being made, plus four hundred basis
6 points. This is a utility type rate of return methodology. This methodology has
7 been presented and accepted by this Commission, as well as the Wyoming Public
8 Service Commission, since the late 1980's.

9 **Q. HAS A STATEMENT R CALCULATION BEEN PREPARED FOR BLACK**
10 **HILLS POWER?**

11 A. Yes. A forecast of the coal price for Black Hills Power is provided as Statement R
12 of the rate application.

13 **Q. WHAT IS THE FORECASTED COAL PRICE?**

14 A. The forecasted coal price for calendar year 2013 is \$14.20 per ton sold to Black
15 Hills Power coal plants. This compares to the expected 2012 price of \$15.61. The
16 calendar year 2013 is expected to be the first time the price of coal has decreased
17 since the 2009 rate case. The price increases in 2009 to 2012 were due to a
18 combination of circumstances. The area being mined was the furthest Northeast
19 corner of the mine, which resulted in longer coal conveyor distances in relation to
20 the site of generation, and increased overburden, which at any given time, results
21 in increased hauling expenses. In addition, increased operating costs for drilling
22 and blasting, equipment maintenance and fuel also contributed to this increase.

1 The projected decrease in coal costs from 2012 to 2013 is a result of a change in
2 the mining plan. This change will allow Wyodak to mine closer to the generation
3 site and decrease its operating expenses in the near term.

4 **Q. WHEN WILL CUSTOMERS SEE THE BENEFIT OF THE DECREASE IN**
5 **COAL COSTS?**

6 A. Customers will see the benefit of the expected decrease in coal costs in the Energy
7 Cost Adjustment (ECA) that will be filed in 2014. We are not including an
8 increase in base rates for the energy costs with this rate case. This change in
9 approach eliminates the overlap due to the recovery of historical cost increases at
10 the same time base rates are updated to match the higher costs. By not updating
11 base rates, we avoid the rate impact of the overlap, but we also live with the lag
12 associated with the recovery / refund of changes in costs recovered through
13 adjustment clauses in BHP's tariffs. For additional information on the ECA, see
14 the testimony of Mr. Kilpatrick.

15 **IV. REQUESTED REVENUE INCREASE**

16 **Q. WHAT IS THE REQUESTED REVENUE INCREASE?**

17 A. Black Hills Power is seeking to increase its electric base rates in South Dakota to
18 recover approximately \$13,750,000 annually in additional electric costs. Black
19 Hills Power is requesting that the increase become effective April 1, 2013.

20 **Q. WHY IS THE REQUESTED REVENUE INCREASE NECESSARY?**

21 A. Since the last base rate increase in 2010, Black Hills Power employees have
22 worked diligently to meet our obligation to serve customers here in South Dakota.

1 During this time we have seen increased costs coupled with fairly flat sales. Our
2 costs have increased due to the need to comply with increased regulations,
3 investments to ensure reliability as our electric system ages, and general
4 inflationary pressures. The environment in which Black Hills Power operates is
5 constantly changing. Unfortunately, in order to get the desired benefits of many of
6 the changes caused by outside influences, the Company will continue to
7 experience increased costs for the electric service our customers buy from us. The
8 proposed increase is necessary to ensure that Black Hills Power has the financial
9 resources necessary to meet its obligations to customers, while also providing a
10 fair return to the shareholders. Shareholders are key to our ability to continue to
11 make the required capital investments necessary to ensure safe and reliable electric
12 service now and in the future.

13 **Q. HOW DO YOU VIEW CUSTOMERS' REACTIONS TO THE**
14 **PERCENTAGE INCREASE REQUESTED?**

15 A. We are always concerned about how our customers view the price they pay for
16 services as compared to the quality of service that they receive. We prioritize our
17 customers' satisfaction and strive to provide them with the most reliable service
18 possible. We pride ourselves on being the kind of company with which people
19 like to do business. This rate increase is necessary for the Company to recover its
20 costs incurred in meeting its electric service obligations. Electricity is the core
21 ingredient in achieving an ever increasing quality of life for many of our
22 customers. It provides essential services like heating and cooling, cooking,

1 refrigeration and lighting. The benefit of these electric services is often taken for
2 granted when contrasted with digital cellular phones, high-definition cable
3 television and high-speed internet connections. Our typical residential customer
4 gets the electricity for all this and more for under \$3.00 per day. Our employees
5 come to work every day with the mission of “Improving Life with Energy.”
6 Commission approval of the requested rate increase is important to support Black
7 Hills Power’s efforts to meet our obligations to customers and their expectations
8 of us.

9 **Q. WHAT STEPS HAVE BEEN TAKEN TO ENSURE SOUTH DAKOTA**
10 **CUSTOMERS ARE NOT PAYING MORE THAN THEIR FAIR SHARE**
11 **OF THE COSTS?**

12 A. Consistent with the Company’s past rate cases, it has prepared a jurisdictional
13 allocation model to make sure that the costs incurred by our South Dakota
14 customers are allocated to the Company’s South Dakota customers. Then, the
15 Company allocated those South Dakota costs to each customer class in South
16 Dakota to make sure each class is paying for the appropriate amount of costs as
17 well.

18 **Q. PLEASE IDENTIFY THE JURISDICTIONS IN WHICH THE COMPANY**
19 **DOES BUSINESS.**

20 A. The Company serves retail customers in the jurisdictions of South Dakota,
21 Wyoming and Montana.

1 **Q. HAS THE COMPANY ALLOCATED COSTS TO ALL THREE OF THOSE**
2 **JURISDICTIONS?**

3 A. Yes, and certain Federal Energy Regulatory Commission (FERC) jurisdictional
4 wholesale costs have also been separated for rate making purposes.

5 **Q. PLEASE DESCRIBE THE ANALYSIS THE COMPANY DID TO**
6 **SUPPORT THE JURISDICTIONAL ALLOCATIONS.**

7 A. The allocation to the jurisdictions is based on cost causation principles for FERC
8 functional classification (Production, Transmission, Distribution, Customer
9 Service and General). The allocation of these functional classifications are
10 consistent with the prior rate cases except that we used a 12 CP (Coincidence
11 Peak) rather than a 1 CP to allocate Production facilities. The Company changed
12 to a 12 CP because we believe this better supports the cost causation principle for
13 allocating those types of costs. The result of this change was a reduction to the
14 amount of production plant cost that was allocated to the South Dakota customers.

15 **V. CLASS COST OF SERVICE ALLOCATIONS AND RATES**

16 **Q. HAS THE COMPANY ALLOCATED COSTS TO THE VARIOUS**
17 **CLASSES OF CUSTOMERS?**

18 A. Yes. The allocated costs are shown on Schedule O-1.

19 **Q. PLEASE DESCRIBE THE PRINCIPLES USED IN CLASS COST OF**
20 **SERVICE ALLOCATIONS.**

21 A. The same principles are used for the class cost of service that were used for the
22 jurisdictional allocations. The first principle is cost causation. The Company has

1 been consistent in how it has allocated costs to the various classes since the classes
2 have not changed significantly and therefore the causation of costs has not
3 changed. The next principle the Company used was continuity. This is important
4 for our customers as we believe they have a good understanding of their rates, and
5 make decisions about how they use electricity based upon these rates. The final
6 principle we used for the class cost of service is affordability. We attempted to
7 mitigate significant increases to any one customer class or within customer
8 classes. In addition, we also recognized that certain sub-groups within classes
9 provide system support, such as the class “total electric”. The “total electric”
10 customers provide a benefit to all the customers since they increase the overall
11 load factor for the Company with their increased use during the winter.

12 **Q. DID YOU REVIEW THE RATE DESIGN FOR THE CUSTOMER**
13 **CLASSES?**

14 A. Yes, and based on my review, the rate design takes into account the same
15 principles used for the class allocations, including cost causation, continuity, and
16 affordability. With these principles in mind, we focused on moving more of the
17 revenue to the demand charges for those customers that are billed for demand
18 charges. The primary reasons for this focus were to encourage customers that are
19 billed demand charges to increase their load factor and to better reward the
20 customers that already have high load factors. Customers that are responsible
21 energy users and have higher load factors should be rewarded with a lower prices
22 since these customers have a lower impact on the costs of the Company.

VII. PHASE IN PLAN

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Q. DOES THE COMPANY INTEND TO FILE A PHASE-IN-PLAN?

A. Yes. The Company has filed a proposed phase-in-plan, which is allowed by SDCL 49-34A-73 to 78, on December 17, 2012. This phase-in-plan will provide for the phase in of rate increases to provide for the recovery of construction financing costs through the proposed tariffs (in lieu of the traditional Allowance for Funds Used During Construction) prior to the anticipated October 1, 2014 commercial operation of the Cheyenne Prairie Generating Station (“CPGS”). CPGS will be a new natural gas-fired generation facility located in Cheyenne, Wyoming, that will be owned by the Company and its affiliate Cheyenne Light. CPGS is an intermediate generation that will provide approximately 55 megawatts for the Company’s customers. CPGS will provide replacement generation for the Company’s older coal-fired generation that cannot be economically retrofitted to meet new air emissions regulations. Under the federal regulations these coal-fired power plants will be retired no later than March of 2014. Once CPGS is commercially operational and the older generation is retired, the average age of the Company’s generation fleet will be approximately 20.4 years. This is significantly less than many other Midwest utilities, and positions the Company well for meeting its obligations to provide safe and reliable electric service.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.