

Before the Public Service Commission
of the State of Wyoming

Joint Application of
Cheyenne Light, Fuel and Power Company and Black Hills Power, Inc.
For a Certificate of Public Convenience
and Necessity for a Gas-Fired
Electric Generating Power Plant and
Related Facilities

Docket No. 20003-113-EA-11

Docket No. 20002-81-EA-11

Record No. 13007

July 18, 2012

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE COMMISSION.

A. Kyle D. White, 625 Ninth Street, P.O. Box 1400, Rapid City, South Dakota, 57701.

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

A. I am Vice President of Resource Planning and Regulatory Affairs for Black Hills Corporation. Among other assignments, I am responsible for electric rate regulatory matters, and resource planning for Cheyenne Light, Fuel and Power Company (“Cheyenne Light”) and Black Hills Power, Inc. (“Black Hills Power”) (Cheyenne Light and Black Hills Power may be collectively referred to as “Applicants”).

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am providing testimony in support of the Stipulation and Agreement (“Settlement Agreement”) between Cheyenne Light and Black Hills Power, and the Office of Consumer Advocate (“OCA”) filed with the Commission on July 13, 2012. In particular, my testimony sets forth the policy and business justification supporting the Settlement Agreement, outlines the benefits to customers, and identifies and discusses the key provisions of the Settlement Agreement, including the generation pool study, the final construction cost price cap, the in-service date of the Cheyenne Prairie Generating Station (“CPGS”), and the proposed CP GS Rider.

1 The Settlement Testimony of Christopher J. Kilpatrick provides a detailed discussion of
2 the calculation of and illustrations regarding the proposed CPGS Rider.

3 **III. SETTLEMENT AGREEMENT**

4 **Q. DID YOU PARTICIPATE IN THE NEGOTIATION OF THE SETTLEMENT**
5 **AGREEMENT?**

6 A. Yes, as Vice President of Resource Planning and Regulatory Affairs, I led the settlement
7 team.

8 **Q. IS THE SETTLEMENT AGREEMENT IN THE PUBIC INTEREST?**

9 A. Yes.

10 **Q. DOES THE SETTLEMENT AGREEMENT RESOLVE ALL CONTESTED**
11 **ISSUES?**

12 A. Yes. The Settlement Agreement resolves all contested issues, supports Commission
13 approval of the resolution of the contested issues, and supports Commission approval of
14 all uncontested matters. There is no “black box” element to the Settlement Agreement.
15 The Settlement Agreement has been signed by all of the parties in this proceeding.

16 **Q. HOW SHOULD THE COMMISSION VIEW THIS SETTLEMENT**
17 **AGREEMENT?**

18 A. Like any settlement, the parties to the Settlement Agreement remove legal risk and
19 uncertainty that is incumbent with protracted litigation. More important, however, is that
20 the Parties to this Settlement were able to reach complete agreement on all issues. This
21 Settlement Agreement benefits customers in a number of areas, including saving valuable
22 resources that would otherwise be invested in prosecution of this case.

1 Applicants are companies that seek to avoid litigation of contested issues when a
2 reasonable solution is available. The parties cooperated with each other to achieve a result
3 that is in the best interest of customers. In the end, an acceptable Settlement Agreement
4 was achieved. The Settlement Agreement represents a compromise in the positions of the
5 parties in this docket and has been negotiated in good faith. Any significant modification
6 to the Settlement Agreement will destroy the benefit of the bargain to the respective
7 parties. Accordingly, this testimony supports the approval of the Settlement Agreement as
8 it is filed with the Commission.

9 **A. BENEFITS OF SETTLEMENT AGREEMENT**

10 **Q. PLEASE PROVIDE A BRIEF REVIEW OF THE BENEFITS OF THE**
11 **SETTLEMENT AGREEMENT.**

12 A. The Settlement Agreement provides four significant benefits to customers. First, it
13 conditionally limits the cost to construct the CPGS to \$222,000,000. The joint application
14 for the Certificate of Public Convenience and Necessity (“CPCN”) as originally filed
15 included an estimated construction cost of \$237,000,000. Second, the Settlement
16 Agreement potentially delays the in-service date of the CPGS from June 2014 to October
17 2014, depending upon the results of a cost benefit study, which study is described in
18 Section D of my testimony. Third, the Settlement Agreement creates a rate phase in plan
19 to mitigate the impact of customer rates when CPGS becomes commercially operational.
20 Fourth and finally, the Settlement Agreement provides for a pooled generation study for
21 Cheyenne Light and Black Hills Power to determine whether combining the generation
22 resources of the two companies may benefit their customers.

1 **B. GENERATION POOL STUDY**

2 **Q. OCA HAS SUGGESTED THAT APPLICANTS CONSIDER A GENERATION**
3 **POOL FOR CHEYENNE LIGHT AND BLACK HILLS POWER. HOW HAS**
4 **THIS ISSUE BEEN RESOLVED?**

5 A. The parties agree that this is the appropriate time to conduct an evaluation of pooling the
6 generation resources of Cheyenne Light and Black Hills Power to evaluate the costs and
7 benefits of a generation pool. The Stipulation and Agreement provides for the initial
8 considerations for the scope of this study, as well as a start and completion date for
9 conducting the study. In addition, the Applicants have made a commitment to fund the
10 study at shareholder expense, in an amount of up to \$100,000 for outside consulting
11 and/or legal support.

12 **C. FINAL CONSTRUCTION COST PRICE CAP**

13 **Q. WHAT HAS BEEN DONE TO ENSURE PRUDENT MANAGEMENT OF THE**
14 **CONSTRUCTION OF THE CPGS?**

15 A. The parties have agreed to a \$222,000,000 price cap for the CPGS. This price cap
16 compares to the estimated construction cost set forth in the original application of
17 \$237,000,000. This reduction in cost will primarily be achieved by eliminating all or
18 nearly all of the allowance for funds used during construction (“AFUDC”) that would
19 typically be associated with a generation construction project. The price cap level is
20 conditioned upon Commission approval of the ongoing CPGS Rider applications that then
21 eliminate or reduce AFUDC.

1 **Q. WHAT HAPPENS IF THE CONSTRUCTION COSTS EXCEED THE PRICE**
2 **CAP?**

3 A. If construction costs exceed the price cap of \$222,000,000, Cheyenne Light and Black
4 Hills Power shall have the burden of proof that the construction costs that exceed the price
5 cap were prudent and reasonable costs.

6 **D. IN-SERVICE DATE**

7 **Q. WHAT IS THE PROJECTED IN-SERVICE DATE OF THE CPGS AS SET**
8 **FORTH IN THE ORIGINAL APPLICATION?**

9 A. The joint application for a CPCN projected an in-service date of June 1, 2014.

10 **Q. HAVE THE PARTIES AGREED TO DELAY THE IN-SERVICE DATE OF**
11 **CPGS?**

12 A. Yes, the parties have agreed to delay the in-service date of CPGS from June 1, 2014 to
13 October 1, 2014, unless a 2012 study of the purchase power costs for the summer of 2014
14 determines that it would be more costly for customers to delay the in-service date.
15 Cheyenne Light and Black Hills Power have made a written commitment to conduct and
16 report on this study prior to December 31, 2012.

17 **Q. DO THE APPLICANTS EXPECT TO COMPLETE THE STUDY PRIOR TO**
18 **DECEMBER 31, 2012?**

19 A. Yes, from a practical standpoint the Applicants expect to conduct and report their findings
20 regarding the market availability of capacity and energy and their plans to acquire or
21 construct the needed capacity to the Commission and OCA on or about October 1, 2012.

1 **E. CHEYENNE PRAIRIE GENERATING STATION RIDER**

2 **Q. PLEASE PROVIDE AN OVERVIEW OF THE CPGS RIDER AND HOW THIS**
3 **WILL BENEFIT CUSTOMERS.**

4 A. The primary intent of the proposed CPGS Rider tariff is two-fold. First, the CPGS Rider
5 tariff reduces construction costs by eliminating AFUDC, which reduces rate base by a
6 forecasted \$17,000,000. Second, it gradually phases in rate increases to reflect the cost of
7 the new generating station, mitigating the initial impact to customers.

8 The parties to the Settlement Agreement have agreed that Cheyenne Light and Black Hills
9 Power will make an application with the Commission for approval of tariffs that will
10 allow for a phase in of rates during the construction period.

11 **Q. DO CUSTOMERS GENERALLY PREFER A PHASE IN OF RATES?**

12 A. Yes. It has been our experience in building generation that customers seem to prefer that
13 rates be raised in lesser amounts over a longer period of time as compared to one larger
14 increase when the generation is placed in service. Therefore, the Settlement Agreement is
15 designed to reduce the initial impact to customers by phasing in the rate increases during
16 the construction period so the rates are raised in lesser amounts over a longer period of
17 time.

18 **Q. DOES WYOMING LAW ALLOW FOR A PHASE IN OF RATES AS SET FORTH**
19 **IN THE SETTLEMENT AGREEMENT?**

20 A. Yes, W.S. 37-2-121 provides in part that “Any public utility may apply to the commission
21 for its consent to use innovative, incentive or nontraditional rate making methods.” The
22 proposed CPGS Rider falls within the referenced statute. While innovative and
23 nontraditional, the CPGS Rider meets the requirement of being just and reasonable in a
24 manner that is fair to customers (both individually and as a whole) and the Applicants.

1 The applications to be filed by Cheyenne Light and Black Hills Power per the Settlement
2 Agreement will include proposed tariffs that are prepared consistent with the provisions of
3 W.S. 37-2-121.

4 **Q. WHEN WILL THE APPLICANTS MAKE A FILING REQUESTING APPROVAL**
5 **OF THE CPGS RIDER TARIFF?**

6 A. The Applicants will make a filing requesting approval of the CPGS Rider tariff no later
7 than October 1, 2012, with a requested effective date of November 1, 2012, subject to
8 refund. The CPGS Rider tariffs that will be filed by the Applicants are not expected to be
9 materially different than Attachment 1 to the Settlement Agreement. Recognizing the
10 abbreviated timeline, the Applicants will make every effort to file in advance of the
11 October 1, 2012 date in order to allow additional time for review by the Commission.

12 **Q. PLEASE PROVIDE ADDITIONAL INFORMATION REGARDING THE**
13 **PROPOSED CPGS RIDER TARIFF.**

14 A. An initial draft of the proposed CPGS Rider tariff was provided as Attachment 1 to the
15 Settlement Agreement. Sample illustrations of the CPGS Rider calculations were
16 provided as Attachment 2 to the Settlement Agreement. The CPGS Rider tariff applies to
17 all electric service rate schedules for all classes of service, as well for all customers taking
18 service pursuant to contract rather than tariff. The CPGS Rider will be calculated and
19 updated quarterly to reflect the most current forecasted construction costs, kWh sales, and
20 short-term debt cost during the effective quarter period. In addition, any under or over
21 recovery from prior quarters through a Balancing Account will be included in the
22 quarterly calculation.

1 **Q. PLEASE EXPLAIN THE INTENDED EFFECTIVE DATE OF THIS RIDER.**

2 A. The Applicants anticipate the proposed CPGS Riders will be effective on and after
3 November 1, 2012, consistent with the start of the CPGS construction, and will be updated
4 on a quarterly basis.

5 The Applicants will file a CPGS Rider compliance filing no later than 30 days prior to the
6 requested effective date for Commission review and audit.

7 Per the Settlement Agreement, rates are considered effective on an interim basis and are
8 subject to refund should the Commission find any issues with the quarterly rate calculation
9 in the compliance filing; provided, however, that the rate will be considered permanent
10 forty-five days after the effective date, unless extended through Commission Order.

11 **Q. WHEN WILL THE CPGS RIDER TARIFF TERMINATE AND WHAT HAPPENS**
12 **TO ANY BALANCE REMAINING IN THE BALANCING ACCOUNT?**

13 A. The Rider Tariff will terminate with the effective date of new base rates that include the
14 investment and costs of the CPGS. Any balance remaining in the Balancing Account by
15 customer class at this time will be collected or remitted to the respective customers over
16 the next six months from the effective date of new base rates.

17 **Q. DOES ANOTHER WITNESS PROVIDE ADDITIONAL INFORMATION ABOUT**
18 **THE CPGS RIDER TARIFF?**

19 A. Yes, Chris Kilpatrick is filing testimony that describes and explains the calculation of the
20 proposed CPGS Rider tariff.

1 **IV. CONCLUSION**

2 **Q. DO THE PARTIES TO THE SETTLEMENT AGREEMENT REQUEST AN**
3 **EXPEDITED DECISION FROM THE COMMISSION?**

4 A. Yes, the parties ask that the Commission enter its Order no later than September 1, 2012,
5 or as soon after September 1, 2012 as may be required by the Commission. The parties
6 recognize that the Commission may need time to consider the testimony and the
7 Settlement Agreement. Since the hearing for this CPCN case is scheduled for July 31,
8 2012, and much of the evidence supporting the Application for a CPCN and additional
9 testimony and explanation of the Settlement Agreement will be considered at that time,
10 the parties believe that the Commission will have a substantial record to provide for a
11 prompt but appropriate review and decision.

12 **Q. IS THE SETTLEMENT AGREEMENT FAIR FOR ALL PARTIES?**

13 A. Yes. The Settlement Agreement provides for a settlement that is fair to the customers of
14 the Applicants and the Applicants.

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

16 A. Yes.

STATE OF SOUTH DAKOTA)

COUNTY OF Pennington) : SS

I, Kyle D. White, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing testimony in support of settlement and I am familiar with its contents, and that the facts set forth are true to the best of my knowledge, information and belief.

Kyle D. White
KYLE D. WHITE

Subscribed and sworn to me this 18th day of July, 2012

Lynn R. Porter
NOTARY PUBLIC

My Commission Expires: 12-1-14

