

Direct Testimony
Richard C. Loomis

Before the Public Utilities Commission of
the State of South Dakota

In the Matter of the Application of
Black Hills Power, Inc.

For the Phase In of Rates Regarding Construction Financing Costs

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. My name is Richard C. (Chuck) Loomis. My business address is 409 Deadwood
4 Avenue, Rapid City, South Dakota 57702.

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

6 A. I am employed by Black Hills Power, Inc. ("Black Hills Power" or "Company") as
7 Vice President, Operations.

8 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND**
9 **AND EMPLOYMENT HISTORY.**

10 A. I earned a Master of Business Administration degree from Bowling Green State
11 University in Bowling Green, Ohio, and a Bachelor of Business Administration
12 degree with a major in Accounting from the University of Toledo, Toledo, Ohio.
13 In addition, I have completed courses related to rate regulation of natural gas and
14 electric utilities and natural gas and electric distribution operations sponsored by
15 various industry organizations and associations. I joined Michigan Gas Utilities
16 ("MGU") in 1985 as General Accountant. From 1987 through 1994, I worked in
17 positions with increasing responsibility in MGU's Rates and Regulatory Affairs
18 function, becoming Manager in 1992. In 1989, Aquila, Inc. (then UtiliCorp
19 United) ("Aquila") acquired MGU from Michigan Energy Resources Company
20 and continued to operate MGU as a separate division.
21 From 1994-1997, I served as State Administrator in Michigan, and in July 1997,
22 relocated to Omaha, Nebraska to become Aquila's Asset Manager for Iowa and

1 Nebraska. In this position, I was responsible for the operational and financial
2 performance of Aquila's gas distribution assets serving nearly 325,000 customers
3 in these two states. I became Manager of Aquila's Nebraska Business Operations
4 as part of a corporate restructuring in 2002. I was named Aquila's Vice President,
5 Kansas and Colorado Gas Operations in February 2004. On July 14, 2008, Black
6 Hills Corporation acquired certain natural gas and electric utility assets from
7 Aquila, including the Kansas and Colorado natural gas utility assets for which I
8 was responsible. On July 14, 2008, I joined Black Hills Power as Vice President,
9 Operations.

10 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED TO BLACK**
11 **HILLS POWER'S ELECTRIC OPERATIONS.**

12 A. I am responsible for the leadership and management of Black Hills Power's
13 electric operations in South Dakota, Wyoming and Montana. I directly oversee
14 state operating functions, including electric distribution network operations,
15 maintenance, construction, local customer service, customer relations and
16 community relations.

17 **II. PURPOSE OF TESTIMONY**

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. The purpose of my testimony in this proceeding is to 1) provide an overview of
21 how the Company has complied with the South Dakota phase in statutes, and 2)

1 explain why the up front phase in of rates is the right thing to do for the
2 Company's customers.

3 **III. OVERVIEW OF PHASE IN RATE PLAN STATUTORY**

4 **REQUIREMENTS**

5 **Q. DOES SOUTH DAKOTA PROVIDE FOR A PHASE IN RATE PLAN FOR**
6 **RATE INCREASES DUE TO PLANT ADDITIONS?**

7 A. Yes. The applicable South Dakota statutes are set forth in SDCL §§49-34A-73 to
8 78. SDCL §49-34A-73 provides that rate increases may be phased in prior to the
9 commencement of commercial operation of the plant additions.

10 **Q. IS THE COMPANY PLANNING A PLANT ADDITION THAT IS**
11 **EXPECTED TO HAVE A MATERIAL IMPACT ON RATES?**

12 A. Yes. Black Hills Power and Cheyenne Light, Fuel and Power Company
13 ("Cheyenne Light") will be the joint owners of a natural-gas fired generation
14 facility known as the Cheyenne Prairie Generating Station ("CPGS") that will be
15 placed in service on or about October 1, 2014. The testimony of Mark Lux
16 describes CPGS, and also describes the Certificate of Public Convenience and
17 Necessity that was approved by the Wyoming Public Service Commission
18 ("Wyoming PSC"). The Wyoming PSC concluded that Black Hills Power had
19 established the need for CPGS and that it is a reasonable resource for meeting the
20 Company's need.

1 **Q. IS CPGS A “PLANT ADDITION” AS DEFINED IN THE PHASE IN RATE**
2 **PLAN STATUTES?**

3 A. Yes, CPGS meets the definition of “plant additions” as set forth in §49-34A-73.1.

4 **Q. IS THE COMPANY FILING A PHASE IN PLAN AS PROVIDED IN SDCL**
5 **§49-34A-73?**

6 A. Yes. In addition, the Company’s phase in plan includes provision for those items
7 that may be allowed pursuant to SDCL §49-34A-73 (1) to (4), as follows:

8 SDCL §49-34A-73 (1) provides that rate increases may be incrementally phased in
9 prior to the commencement of commercial operations of the plant additions. The
10 Company’s phase in plan incrementally increases rates each quarter during the
11 CPGS construction period, which mitigates the initial rate increase impact to
12 customers. The phase in plan provides that rates will be increased over a period of
13 time rather than one large increase when CPGS is placed in service on or about
14 October 1, 2014. The incremental rate increases are discussed in the testimony of
15 Christopher J. Kilpatrick.

16 SDCL §49-34A-73(2) provides that to the extent phased in rate increases are
17 authorized, there may be restrictions on the capitalization of allowance for funds
18 used during construction for the plant additions. The Company’s phase in plan
19 meets the statutory language. One of the benefits of the Company’s phase in plan
20 is that it reduces construction costs by eliminating the Allowance for Funds Used
21 During Construction (AFUDC). This, in turn, reduces Black Hills Power’s future

1 rate base. This concept is further discussed in Christopher J. Kilpatrick's
2 testimony.

3 SDCL §49-34A-73(3) provides for restrictions on other rate increases. Barring
4 unforeseen circumstances, the Company does not intend to file any rate increase
5 applications for an increase to base rates that would go into effect prior to October
6 1, 2014, except for the application filed on December 17, 2012 for a rate increase
7 proposed to go into effect April 1, 2013.

8 SDCL §49-34A-73(4) provides for any other conditions which benefit the public
9 interest and may be imposed by the commission consistent with the findings in
10 SDCL §49-34A-74.

11 The information set forth below addresses SDCL §49-34A-74.

12 **Q. DOES THE COMPANY'S PROPOSED PHASE IN RATE PLAN MEET**
13 **THE REQUIREMENTS OF SDCL §49-34A-74?**

14 A. Yes. The Company has filed this Application prior to the commencement of
15 construction of CPGS, which is scheduled to commence in early 2013. (see SDCL
16 §49-34A-74(1)). The Company has filed with this application a full cost of
17 service analysis, including a projection of costs and revenue requirements to the
18 anticipated commercial operation date of CPGS. Please see the testimony of
19 Christopher J. Kilpatrick. (see SDCL 49-34A-74(2)). The Company requests that
20 the Commission hold a hearing, with the required notice, regarding the phase in
21 plan. (see SDCL 49-34A-74(3))

1 The Company believes that it has provided testimony for the Commission to find
2 that the phase in rate plan is likely to enhance adequate utility service, rate
3 stability, the financial stability of the electric utility, reasonable capital costs, just
4 and reasonable rates, a fair rate of return, and other considerations that benefit the
5 public interest. (see SDCL 49-34A-74(4)) Please see the testimony of Kyle D.
6 White.

7 **Q. WILL THE COMPANY COMPLY IN THE FUTURE WITH THE**
8 **REQUIREMENTS OF SDCL §49-34A-75 AND §49-34A-76?**

9 A. Yes. With regard to compliance with SDCL §49-34A-75: The Company will file,
10 on an annual basis, an abbreviated cost of service analysis to meet the statutory
11 requirement. Accordingly, and subject to Commission approval, there will be one
12 report filed for the calendar year end December 31, 2013, and said report will be
13 filed no later than May 1, 2014. Further, a quarterly report will be provided with
14 the phase in plan rate filings that will show the progress of the construction of
15 CPGS and projections to complete the construction of GPGS. The Company also
16 fully intends to comply with the requirement of SDCL §49-34A-76. The
17 Company presently intends to file a rate case no later than six months prior to the
18 commercial operation of CPGS. The Company will also analyze and determine if
19 a general rate case is needed within twelve months after the end of the phase in
20 rate plan. Results will be evaluated, and if in the Company's opinion, a general
21 rate case is not warranted, the Company will work with Commission staff and/or
22 file the necessary motion.

1 **Q. IN SUMMARY, HAS THE COMPANY COMPLIED WITH THE SOUTH**
2 **DAKOTA STATUTORY REQUIREMENTS FOR A PHASE IN RATE**
3 **PLAN?**

4 A. Yes.

5 **IV. BENEFIT TO CUSTOMERS**

6 **Q. DO THE COMPANY'S CUSTOMERS BENEFIT FROM THE PHASE IN**
7 **RATE PLAN?**

8 A. Yes. First, the South Dakota customers of Black Hills Power will save
9 approximately \$1.5 million over the life of the plant on a net present value
10 calculation by avoiding AFUDC in rate base. Second, the phase in rate plan will
11 moderate the rate increase when CPGS is put into rate base. As explained in the
12 testimony of Kyle D. White, the innovative approach to the phase in rate plan
13 benefits customers in unique ways and still meets the needs of the Company's
14 shareholders. The bottom line is the phase in rate plan is the right thing to do for
15 the Company's customers.

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

17 A. Yes.