

Direct Testimony
Kyle D. White

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 FOR THE**
3 **COMMISSION.**

4 A. Kyle D. White, 625 Ninth Street, P.O. Box 1400, Rapid City, South Dakota,
5 57701.

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

7 A. I am Vice President of Regulatory Affairs for Black Hills Corporation (“BHC”).
8 Among other assignments, I am responsible for regulatory affairs for Black Hills
9 Power, Inc. (“Black Hills Power”).

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

11 A. I am testifying on behalf of Black Hills Power.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS**
13 **BACKGROUND.**

14 A. I graduated with honors from the University of South Dakota in May of 1982 with
15 a Bachelor of Science degree in Business Administration, majoring in
16 management. In August of 1989 I graduated with a Masters degree in Business
17 Administration, also from the University of South Dakota. I have been employed
18 by Black Hills Corporation in rate, regulatory, resource planning and marketing
19 related work since July of 1982 and have been in my present position since August
20 of 2012. In addition to on-the-job training, I have attended numerous seminars,
21 trade association meetings, and regulatory conferences covering a variety of
22 utility-related subjects.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

2 A. Yes.

3 **II. PURPOSE OF TESTIMONY**

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

5 A. The primary purpose of my direct testimony is to provide a broad overview of the
6 Cheyenne Prairie Generating Station (“CPGS”), including the need for CPGS. I
7 provide an overview of the proposed phase in plan and I describe the benefits of
8 the phase in plan as it relates to the CPGS. Finally, I introduce the other
9 witnesses filing direct testimony.

10 **III. OVERVIEW**

11 **Q. THE COMPANY FILED AN APPLICATION FOR A RATE INCREASE**
12 **(“PRESENT RATE CASE”) ON THE SAME DAY THIS APPLICATION**
13 **WAS FILED. PLEASE EXPLAIN THE RELATIONSHIP, IF ANY,**
14 **BETWEEN THESE TWO APPLICATIONS.**

15 A. Generally speaking, the filing of the Present Rate Case is unrelated to this
16 Application for a phase in of rates, although the Commission’s decision regarding
17 return on equity in the Present Rate Case would be applied in the phase in rates.
18 This Application requests phase in rates relating to the construction financing
19 costs of CPGS. The Present Rate Case does not include CPGS or the costs related
20 to CPGS.

21 The Company filed the Present Rate Case with the South Dakota Public Utilities
22 Commission (“Commission”) for authority and consent to make certain changes

1 in its charges for retail electric service provided to the Company’s South Dakota
2 customers, for authority and consent for a new transmission facility cost recovery
3 tariff, for an accounting order for vegetation management, and other changes to
4 the tariffs for service to its South Dakota electric customers. The primary drivers
5 of the requested rate increase in the Present Rate Case are: 1) investments in
6 assets to replace aging infrastructure and make system improvements to continue
7 providing safe, reliable service to customers; 2) the increasing cost of compliance
8 with federal environmental regulations and compliance with North American
9 Electric Reliability Corporation (“NERC”) requirements; 3) lack of revenue
10 growth that would normally help to offset operating cost increases; and 4)
11 increasing preventative costs related to tree trimming and other vegetation
12 management.

13 **IV. GENERAL DESCRIPTION OF CPGS**

14 **Q. WHAT IS CPGS?**

15 A. CPGS is a natural gas-fired power station that will be constructed in Cheyenne,
16 Wyoming providing a total of 132 MW. The power station includes a natural gas-
17 fired combustion turbine generator and a combined cycle unit, together with the
18 ancillary equipment, electrical transmission and natural gas lines, and related
19 equipment, land and buildings. CPGS will be owned by Black Hills Power and
20 Cheyenne Light, Fuel and Power Company (“Cheyenne Light”), both of which are
21 subsidiaries of BHC. The estimated total cost of CPGS is \$222 million, excluding
22 the Allowance for Funds Used During Construction (“AFUDC”). CPGS will

1 provide Black Hills Power with 55 MW of net generation capacity. The estimated
2 cost of Black Hills Power's ownership of CPGS is \$95 million. The testimony of
3 Mark Lux provides a more detailed description of CPGS.

4 **Q. WHY IS CPGS NECESSARY?**

5 A. The future resource needs of Black Hills Power are driven primarily by the impact
6 of environmental regulatory requirements on its existing generating facilities.
7 Based on regulatory requirements and economics, the Ben French, Neil Simpson I
8 and Osage coal-fired units owned by Black Hills Power (having a gross capacity
9 of 81 MW) will need to be retired in early 2014. Black Hills Power customers
10 expect reliable and affordable electric service. The construction of CPGS supports
11 these customer needs. The testimony of Mark Lux provides a detailed explanation
12 of the necessity of CPGS.

13 **Q. DID THE WYOMING PUBLIC SERVICE COMMISSION APPROVE A**
14 **CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY (CPCN)**
15 **FOR CPGS?**

16 A. Yes. In 2011, Black Hills Power and Cheyenne Light jointly applied to the
17 Wyoming Public Service Commission for a CPCN. Under Wyoming law,
18 authorization of the Wyoming Public Service Commission ("Wyoming PSC") is
19 necessary for construction in Wyoming of generating facilities such as CPGS. At
20 a hearing in July, 2012, the Wyoming PSC approved the Certificate of Public
21 Convenience and Necessity (Docket No. 20003-113-EA-11 and 20002-81-EA-11,

1 Record No. 13007, and established the need for CPGS and that it is a reasonable
2 resource for meeting the need.

3 **Q. WHAT IS THE TIMELINE FOR THE CONSTRUCTION OF THE CPGS?**

4 A. Construction is expected to commence in the first quarter of 2013, with an
5 expected in service date of October of 2014.

6 **V. GENERAL DESCRIPTION OF PHASE IN PLAN**

7 **Q. PLEASE GENERALLY DESCRIBE THE PROPOSED PHASE IN PLAN.**

8 A. South Dakota Codified Laws 49-34A-73 et. seq. provides for a phase in of rate
9 increases prior to the commercial operation of major capital additions.
10 Specifically, Black Hills Power is requesting approval of the phase in of rates to
11 allow the Company to recover construction financing costs relating to CPGS, in
12 lieu of rate basing the traditional AFUDC. This results in approximately \$8.5
13 million estimated reduction to rate base and an overall net present value savings to
14 customers due to a rate of return utilizing Black Hills Corporation's expected short
15 term borrowing rate rather than long-term debt cost. The financial condition of
16 Black Hills Power is sound. The proposed phase in increase will ensure that Black
17 Hills Power has the financial resources necessary to meet its obligations to
18 customers, while also providing a fair return to its shareholders. The direct
19 testimony of Richard C. Loomis addresses how the Company has complied with
20 the applicable South Dakota phase in statutes.

1 **Q. HAS THE WYOMING PUBLIC SERVICE COMMISSION AUTHORIZED**
2 **THE COMPANY TO RECOVER FINANCING COSTS RELATING TO**
3 **CPGS?**

4 A. Yes. Black Hills Power filed (in Wyoming PSC Docket No. 20002-84-ET-12
5 Record No. 13336) an application on or about August 31, 2012 with the Wyoming
6 PSC for approval of a tariff that would allow the Company to recover financing
7 costs during construction relating to CP GS from the Company's Wyoming
8 customers. The Wyoming PSC approved the application and the Company began
9 collecting amounts pursuant to the tariff on November 1, 2012. The order is
10 attached to the testimony of Christopher J. Kilpatrick as Exhibit CJK - 106. A
11 similar tariff was also approved by the Wyoming PSC for Black Hills Power's
12 sister utility and project partner, Cheyenne Light.

13 **Q. DOES THE PROPOSED SOUTH DAKOTA PHASE IN PLAN INCLUDE**
14 **RECOVERY OF ALL CP GS CONSTRUCTION COSTS?**

15 A. No. The phase in plan only includes recovery of the construction financing costs.
16 This is different than a typical Construction Work In Progress ("CWIP") approach
17 where construction costs are included in rate base during construction. The South
18 Dakota phase in statutes provide that a utility may request the phase in of rates for
19 recovery of upcoming major capital additions such as CP GS and related costs, but
20 the Company has elected only to request approval of a phase in plan for the
21 recovery of construction financing costs. The Company selected a more simple
22 approach by electing not to request a phase in plan for the recovery of other

1 construction costs, other than construction financing costs related to CPGS,
2 because of the Present Rate Case and the construction period for CPGS.

3 **VI. BENEFITS OF THE PHASE IN PLAN**

4 **Q. PLEASE DESCRIBE HOW THE PROPOSED PHASE IN PLAN**
5 **REGARDING CPGS WILL BENEFIT CUSTOMERS.**

6 A. The phase in plan provides primarily two benefits to customers. First, the phase in
7 plan reduces construction costs by eliminating AFUDC, which is estimated to
8 reduce Black Hills Power's future rate base by approximately \$8.5 million. This
9 will help moderate the rate increase when Black Hills Power files its next general
10 rate case which is expected to be no later than April 1, of 2014, requesting rate
11 recovery of the CPGS investment and related costs. Second, the phase in plan
12 raises rates a little each quarter during construction, mitigating the rate increase
13 required when the plant begins commercial operation. The direct testimony of
14 Christopher J. Kilpatrick provides a detailed description of the proposed phase in
15 plan and the financial benefits to the Company's customers.

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

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

1 raised in lesser amounts over a longer period of time, and provides for rate
2 stability.

3 **Q. DOES THE COMMISSION NEED TO FIND THAT CPGS IS USED AND**
4 **USEFUL IN ORDER TO APPROVE THE PHASE IN PLAN?**

5 A. No. The time to determine whether CPGS meets the used and useful standard will
6 be when Black Hills Power requests through an application for a base rate increase
7 to include CPGS in rate base for its operations. However, the Company believes
8 that CPGS will meet the “used and useful” standard when it is completed and is
9 placed into the service of customers in the fall of 2014. CPGS is a viable resource
10 for Black Hills Power to replace the retired capacity of older, coal-fired generation
11 to economically meet new Environmental Protection Agency air emission
12 regulations. The project has a short construction period that reduces risk, and
13 Black Hills Corporation has a proven consistent track record of constructing major
14 generation projects on-time and at or below budget. In fact, generation of the type
15 being constructed at CPGS was completed just two years ago in Pueblo, Colorado,
16 by Black Hills Corporation on-time and under budget. With these facts, it is
17 reasonable to expect that CPGS will provide the expected benefits for customers
18 and will result in just and reasonable rates.

1 **Q. WHAT FINDINGS DOES THE COMMISSION NEED TO MAKE IN**
2 **ORDER TO APPROVE THE PHASE IN OF RATES REQUESTED**
3 **HEREIN?**

4 A. As set forth in the testimony of Richard C. Loomis, pursuant to SDCL 49-34A-74,
5 in order to approve the phase in of rates, the Commission must find that the phase
6 in plan is likely to enhance adequate utility service, rate stability, the financial
7 stability of the electric utility, reasonable capital costs, just and reasonable rates, a
8 fair rate of return and other considerations that benefit the public interest.

9 **Q. PLEASE BRIEFLY DESCRIBE HOW THE COMPANY HAS MET THOSE**
10 **REQUIREMENTS.**

11 A. The Company has met the requirements set forth in SDCL 49-34A-74, as
12 discussed throughout my testimony, and as supported by other testimony in this
13 application.

14 The phase in plan enhances adequate utility service, and provides rate stability and
15 supports the financial stability of the electric utility by allowing the Company to
16 collect construction financing costs throughout the project duration which
17 eliminates AFUDC. As described in my testimony, this provides customers with a
18 substantial savings and provides additional cash flow to support the Company in
19 providing utility service and strengthening the financial stability of the Company
20 during construction of the generating facility. By incorporating the phase in plan,
21 customers gain additional rate stability with the small quarterly increases that will
22 help mitigate the impact when the generating facility is placed into service. Mr.

1 Lux discusses in his direct testimony the need for the generating facility in order to
2 provide utility service, in addition to being a reasonable resource.

3 As discussed in Mr. Kilpatrick's testimony, forecasted capital costs are trued up to
4 actual capital costs and any variance will flow through to the Balancing Account.

5 Therefore, customers only pay the financing costs on the actual capital costs of
6 CPGS. Black Hills Corporation has demonstrated its' ability to build plants on
7 time and at or below budget. Further, although not binding on this Commission,
8 the Wyoming PSC has approved the CPGS, which included the budget of \$222
9 Million (excluding AFUDC) for CPGS, which confirmed the need and determined
10 CPGS is a reasonable resource for meeting the need for additional power supply.

11 Finally, the Commission will decide on a fair rate of return in the Present Rate
12 Case, and that rate of return will be applied to the phase in rate plan, as discussed
13 further in Mr. Kilpatrick's testimony. Overall, the phase in plan results in just and
14 reasonable rates for customers due to the long-term benefit of lower rate base and
15 the resulting lower revenue requirement when CPGS is placed into service.

16 **Q. DOES THE CPGS CONSTRUCTION PERIOD OF LESS THAN TWO**
17 **YEARS BENEFIT CUSTOMERS?**

18 A. Yes. This short construction period is a key element of the customer benefit of
19 this phase in plan. The short construction period allows Black Hills Power to use
20 short term construction financing in lieu of AFUDC determined in accordance
21 with the Federal Energy Regulatory Commission requirement that includes a long
22 term debt component.

1 **Q. WHEN WILL THERE BE A PRUDENCY REVIEW OF CPGS**
2 **CONSTRUCTION COSTS?**

3 A. The prudency review of CPGS construction costs will be at the time Black Hills
4 Power files the rate case requesting approval to include the CPGS investment and
5 related costs in base rates. Nevertheless, the Company believes the capital costs
6 will be found to be prudent and reasonable. Black Hills Power anticipates filing
7 this rate case with the Commission no later than six months in advance of the
8 expected October 2014 commercial operation date of CPGS.

9 **Q. PLEASE PROVIDE AN ANALOGY THAT WOULD HELP EXPLAIN THE**
10 **PHASE IN PLAN ALLOWING FOR THE RECOVERY OF**
11 **CONSTRUCTION FINANCING COSTS.**

12 A. The best analogy to help explain this phase in plan is a home construction loan.
13 The homeowner contracting to build a home can take out a construction loan to
14 finance the construction costs. Under this approach the construction loan interest
15 costs are paid during construction by the homeowner and result in a lower amount
16 to be mortgage financed for the home owner when the house is completed. The
17 other option is for the contractor to pay for the financing during the construction of
18 the home and include the construction loan interest in the price of the house. This
19 approach results in a larger mortgage for the homeowner. The phase in plan is
20 similar to the homeowner using a construction loan to lower the amount of the
21 mortgage. The phase in plan eliminates the AFUDC (ie. construction loan

1 interest) resulting in a lower project cost to be included in rate base when
2 construction is completed and for determining future rates.

3 **Q. DOES THE PHASE IN PLAN PROVIDE PRECEDENCE FOR FUTURE**
4 **CONSTRUCTION PROJECTS?**

5 A. No. As Chris Kilpatrick will further discuss in his testimony, the current spread in
6 the short term and long term borrowing rates is such that Black Hills Power has
7 never seen before and may not experience again in the future. This unusual
8 interest rate spread and Black Hills Power's willingness to pass the benefit on to
9 customers is the economic reason the proposed phase in plan results in an overall
10 customer benefit.

11 **Q. WILL BLACK HILLS POWER FILE ANOTHER BASE RATE INCREASE**
12 **FOR RATES EFFECTIVE BEFORE OCTOBER 2014?**

13 A. No. Other than the Present Rate Case, and outside of any unusual or unforeseen
14 events, Black Hills Power does not expect to file another base rate increase for
15 base rates effective before October 2014. The short construction period for the
16 CPGS will help alleviate the need for base rate increases before October 2014.

17 **Q. HOW WILL SHAREHOLDERS BE IMPACTED BY THE PHASE IN**
18 **PLAN?**

19 A. In this case, Black Hills Corporation shareholders would be better served if Black
20 Hills Power were to use the traditional approach for recovering construction
21 financing costs by booking AFUDC and including it in rate base for determining
22 rates. There are two reasons for this outcome. First, the net income booked by

1 Black Hills Power during construction is lower under the proposed phase in plan
2 than if it were to book AFUDC. This lower net income is due primarily to two
3 causes. The phase in plan creates current revenues that result in federal corporate
4 income taxes that are due and payable in the year booked. Also, the AFUDC
5 interest is higher and offsets more of the utility's actual interest expense than the
6 short-term interest rate utilized in the calculation of the phase in plan. The second
7 reason utility shareholders are worse off if the Commission approves the phase in
8 plan is because the opportunity to invest and earn a return is reduced by the
9 amount of AFUDC that is eliminated. In this case the investment opportunity is
10 expected to be reduced by \$8.5 million, which over the first twenty years the new
11 generation is in service reduces net income for Black Hills Power shareholders by
12 approximately \$6.1 million.

13 **Q. WITH THE LOWER EXPECTED RESULTS FOR SHAREHOLDERS,**
14 **WHY HAS BLACK HILLS POWER PROPOSED THE PHASE IN PLAN?**

15 A. Black Hills Power recognizes that its business opportunities come from meeting
16 its obligation to serve its customers both responsibly and cost-effectively. We have
17 been serving customers in South Dakota for 129 years. The innovative approach
18 Black Hills Power proposes with the phase in plan application benefits customers
19 in unique ways and still meets the needs of our shareholders. We are proud to
20 propose it on behalf of both our customers and shareholders.

1 **VII. PHASE IN PLAN OVERVIEW**

2 **Q. PLEASE PROVIDE AN OVERVIEW OF THE PROPOSED PHASE IN**
3 **PLAN.**

4 A. As already mentioned, the primary intent of the phase in plan is two-fold. First,
5 the proposed phase in plan reduces the Black Hills Power CPGS construction costs
6 to be rate based by an expected \$8.5 million by eliminating AFUDC. Second, it
7 phases in rate increases quarterly thus reducing the size of the rate increase
8 necessary when CPGS is placed into service.

9 The proposed phase in plan applies to all electric service rate schedules for all
10 classes of service, as well as for all customers taking service pursuant to contract
11 rather than tariff. The phase in plan will be calculated and updated quarterly to
12 reflect the most current forecasted construction costs, kWh sales, and short-term
13 debt cost. In addition, any under or over recovery from prior quarters will be
14 included in the quarterly calculation through a Balancing Account. The proposed
15 phase in plan tariff is provided as Exhibit CJK - 103 to the testimony of
16 Christopher J. Kilpatrick and Mr. Kilpatrick provides a detailed description of the
17 rate calculation in his testimony. In addition, the application sets forth the first
18 quarterly calculation of the phase in plan for the effective period February 1, 2013
19 through April 30, 2013 with supporting calculations and customer impacts
20 provided in Exhibit CJK – 104 to the testimony of Christopher J. Kilpatrick.

1 **Q. WHAT RETURN ON EQUITY IS USED IN THE COMPANY'S**
2 **CALCULATION OF CUSTOMER BENEFIT?**

3 A. The Company is using the return on equity requested in its Present Rate Plan
4 Specifically, the requested return on equity is 10.25%. If this Commission
5 authorizes in the Company's Present Rate Case a return on equity of less than the
6 requested 10.25%, the benefits to the Company's customers of this phase in plan
7 will be greater than the calculated benefits identified in this Application.

8 **Q. WHAT IF THE COMPANY'S RETURN ON EQUITY APPROVED IN ITS**
9 **PRESENT RATE CASE IS LESS THAN THE RETURN ON EQUITY**
10 **USED IN THE COMPANY'S CALCULATIONS FOR PHASE IN RATES?**

11 A. The Company will use a Balancing Account and a true up. The end result will be
12 that the rates paid by customers in the phase in plan will be determined based upon
13 the return on equity authorized by this Commission in the Present Rate Case.

14 **Q. PLEASE EXPLAIN THE INTENDED EFFECTIVE DATE OF THIS**
15 **PHASE IN PLAN.**

16 A. Black Hills Power requests the proposed phase in plan be effective for service on
17 and after February 1, 2013, with updates to the rate occurring on a quarterly basis.
18 Black Hills Power will file quarterly phase in plan compliance filings no later than
19 30 days prior to the requested effective dates for Commission review and audit. In
20 accordance with the proposed tariff, phase in rates are effective on an interim basis
21 and are subject to refund should the Commission find any issues with the quarterly
22 rate calculation in the compliance filing; provided, however, that the rate will be

1 considered permanent forty-five days after the effective date, unless the review
2 period is extended through Commission Order.

3 **Q. WHY HAS BLACK HILLS POWER REQUESTED THE RATE TO**
4 **BECOME EFFECTIVE FEBRUARY 1, 2013 SUBJECT TO REFUND?**

5 A. The primary purpose of the request for the phase in rate to become effective
6 February 1, 2013 subject to refund is to maximize savings to customers. If the
7 phase in rates are not in place concurrently with construction financing costs, it
8 will be necessary for Black Hills Power to include AFUDC with rate based
9 construction costs for the period construction financing costs are not recovered.
10 Black Hills Power requests that the Commission not suspend the phase in plan
11 rates and quarterly rates for investigation and final order, but instead allow the
12 rates to become effective February 1, 2013 subject to refund. This approach
13 results in the greatest opportunity for savings for customers. Should the
14 Commission later decide on a lower rate level or reject the phase-in proposal
15 entirely, excess customer payments will be refunded with interest paid at an
16 annual rate of seven (7) percent.

17 **Q. WHEN WILL THE PHASE IN PLAN RATES TERMINATE AND WHAT**
18 **HAPPENS TO ANY BALANCE REMAINING IN THE BALANCING**
19 **ACCOUNT?**

20 A. The phase in plan rates will terminate with the effective date of new base rates in
21 South Dakota that include the investment and related costs of the CPGS. The
22 Balancing Account amounts by customer class will be assessed at the time of the

1 2014 rate case filing to determine the appropriate method of collecting or remitting
2 the balance. Options that will be considered at that time include extending the
3 phase in rates for another three months or an appropriate period of time to create a
4 balance closer to zero or possibly carrying forward a minimal balance to the
5 Energy Cost Adjustment or proposing a corresponding reduction to rate base. The
6 proposed methods of addressing the remaining balance would be reviewed with
7 the South Dakota Commission prior to implementation.

8 **VIII. INTRODUCTION OF OTHER WITNESSES**

9 **Q. PLEASE INTRODUCE BLACK HILLS POWER'S OTHER WITNESSES**
10 **IN THIS CASE.**

11 A. The other witnesses providing written direct testimony and the subject matter of
12 each are listed below:

13 **Christopher J. Kilpatrick**, the Director of Resource Planning and Rates: Mr.
14 Kilpatrick provides a detailed discussion of the customer benefit analysis,
15 proposed phase in plan, the phase in plan tariff, rate calculation, and cost of
16 service, along with supporting schedules.

17 **Mark Lux**, Vice President and General Manager, Regulated and Non-Regulated
18 Generation: Mr. Lux provides testimony regarding the need for CPGS, including
19 environmental laws and regulations that are impacting the Company's operational
20 decisions regarding its small coal-fired generating units, provides a detailed
21 description of CPGS, and describes the planned construction practices for the
22 CPGS.

1 **Richard C. Loomis**, Vice President of Operations: Mr. Loomis provides a
2 description of how the Company has complied with the South Dakota phase in
3 statutes, and explains why the phase in of rates is the right choice for customers.

4 **IX. CONCLUSION**

5 **Q. IS THE PHASE IN PLAN IN THE PUBLIC INTEREST?**

6 A. Yes. The phase in plan is expected to provide significant benefits to customers.
7 The phase in plan mitigates the impact of the 2014 rate increase for customers
8 required for the recovery of the CPGS costs of Black Hills Power. The reduction
9 in rate base of approximately \$8.5 million would reduce the revenue requirement
10 by almost \$1.3 million on an annual basis going forward. The South Dakota phase
11 in statutes were adopted for this specific purpose. Black Hills Power has complied
12 with the phase in statutes. In our opinion, approval by the Commission of the
13 proposed phase in rates will also result in just and reasonable rates.

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

15 A. Yes.