

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**APPLICATION OF BLACK HILLS)
POWER, INC. FOR AN INCREASE)
IN ELECTRIC RATES)**

DIRECT TESTIMONY OF PERRY S. KRUSH

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Perry S. Krush. My business address is 625 Ninth
4 Street, Rapid City, South Dakota, 57701.

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

6 A. I am employed by Black Hills Service Company, LLC, a wholly owned
7 subsidiary of Black Hills Corporation and currently serve as Vice
8 President and Controller for Black Hills Corporation and its
9 subsidiaries, including Black Hills Power, Inc.

10 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS DOCKET?**

11 A. I am appearing on behalf of Black Hills Power, Inc. ("Black Hills
12 Power"), an operating subsidiary of Black Hills Corporation ("Black
13 Hills").

14 **Q. WOULD YOU BRIEFLY DESCRIBE YOUR DUTIES AND
15 RESPONSIBILITIES IN YOUR CURRENT POSITION?**

16 A. I am responsible for the accounting function, including financial
17 reporting, financial planning and analysis, budget development, tax,

1 accounting activities and accounting systems at Black Hills
2 Corporation and all of its subsidiaries.

3 **Q. WOULD YOU PLEASE OUTLINE YOUR EDUCATIONAL AND**
4 **PROFESSIONAL BACKGROUND?**

5 A. I have a B.S.B.A. in Accounting from the University of South Dakota
6 and I am a Certified Public Accountant. I have been employed by
7 Black Hills or its predecessors for approximately eighteen years. I
8 served as an Accounting Manager from 1988-2000, as Director of
9 Accounting – Independent Energy from 2000-2002, and as
10 Controller – Retail Operations from 2003-2004. I was appointed to
11 my current position as Vice President and Corporate Controller in
12 2004. Prior to joining Black Hills Corporation I served as the
13 Director of Finance of a rural hospital and prior to that I worked in
14 public accounting.

15 **II. PURPOSE OF TESTIMONY**

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

17 A. The purpose of my testimony is to discuss and support the utility-
18 type rate of return calculation that is used to determine the price of
19 coal paid by Black Hills Power to its affiliate Wyodak Resources
20 Development Corporation (Wyodak Resources).

21 **III. BLACK HILLS POWER AND WYODAK**

22 **Q. WHAT IS THE SOURCE OF FUEL USED TO SUPPLY COAL FOR**
23 **BLACK HILLS POWER STEAM GENERATION?**

1 A. The Wyodak coal mine, which is owned and operated by Wyodak
2 Resources. Coal for Black Hills Power's steam generation is
3 supplied by the Wyodak coal mine to Black Hills Power generating
4 facilities at the Wyodak site and facilities at Osage, Wyoming, and
5 Rapid City, South Dakota.

6 **Q. DOES WYODAK RESOURCES OPERATE AS A CORPORATION**
7 **SEPARATE FROM BLACK HILLS POWER?**

8 A. Yes. Wyodak Resources is a wholly-owned subsidiary of Black Hills
9 and is engaged in the coal mining business and has no utility
10 operations. It has its own employees and operating management
11 and keeps books of accounting separate from all other Black Hills
12 subsidiaries, including Black Hills Power.

13 **Q. PLEASE DESCRIBE THE OPERATIONS OF WYODAK**
14 **RESOURCES.**

15 A. Wyodak Resources was formed by Black Hills in 1956 for the
16 purpose of engaging in the coal mining business and for that
17 purpose acquired the coal mine just east of Gillette, Wyoming. Prior
18 to the acquisition, the mine was operated by Wyodak Coal
19 Company, a subsidiary of Homestake Mining Company. Homestake
20 did not have any federal coal under lease but did own some coal
21 reserves which were leased to Black Hills for a royalty payment.
22 Since that time, Wyodak Resources has greatly expanded its
23 operation and has acquired federal coal leases. Most of the original

1 Homestake coal has been mined and what is left has been
2 purchased by Wyodak Resources from Homestake. Wyodak
3 Resources has been the sole supplier of coal to Black Hills Power
4 for all of its coal-fired power plants. Wyodak Resources' major
5 contract is the 35-year all-requirements contract where Wyodak
6 Resources assumed the responsibility of supplying coal for the 330
7 MW Wyodak Plant, commencing with the plant's commercial
8 operation in 1978. As mentioned in the testimony of Thomas
9 Ohlmacher, Black Hills Power owns twenty percent of the Wyodak
10 Plant. Therefore, twenty percent of sales are in effect to Black Hills
11 and 80 percent to PacifiCorp, the co-owner. Because shipping coal
12 by rail to Black Hills Power's plants located away from the mine site
13 is economically impractical, Wyodak Resources utilizes a truck load-
14 out facility so that coal hauling trucks can be efficiently loaded and
15 dispatched to the various plants. Wyodak Resources has also had
16 some additional sales to various industrial users in our area.

17 **Q. WHAT IS THE TOTAL ANNUAL PRODUCTION OF WYODAK**
18 **RESOURCES AT THIS TIME?**

19 A. Approximately 4.7 million to 4.8 million tons of coal depending on
20 power plant maintenance schedules.

21 **Q. WHO ARE THE MAJOR CUSTOMERS OF WYODAK**
22 **RESOURCES?**

1 A. During 2005, PacifiCorp purchased approximately 2.7 million tons of
2 coal for its 80 percent interest in the Wyodak Plant and the Dave
3 Johnston Plant, or approximately 57 percent of Wyodak Resources'
4 total annual production, Black Hills purchased over 1.4 million tons
5 of coal for its 20 percent interest in the Wyodak Plant and for its
6 other coal fired generating plants. Sales to industrial customers
7 account for approximately 600,000 tons per year.

8 **IV. AFFILIATE COAL PRICE**

9 **Q. HAVE THE ISSUES OF COAL SUPPLY AND COAL PRICINGS**
10 **FOR BLACK HILLS POWER'S STEAM GENERATOR PLANTS**
11 **BEEN PRESENTED PREVIOUSLY FOR REVIEW BY THE SOUTH**
12 **DAKOTA PUBLIC UTILITIES COMMISSION?**

13 A. Yes. These issues were discussed in South Dakota Public Utilities
14 Commission Docket Nos. EL92-026 and EL95-003. The South
15 Dakota Public Utilities Commission has for many years regulated
16 the pricing of coal supplied to Black Hills Power by Wyodak
17 Resources on the basis that the sale is a transaction between
18 affiliated companies.

19 **Q. EXPLAIN YOUR FAMILIARITY WITH WHAT WE REFER TO AS**
20 **THE STATEMENT R CALCULATION.**

21 A. Part of the responsibilities of the Black Hills Accounting Department
22 is to make what we refer to as a Statement R calculation each year
23 as it affects the price that Wyodak Resources charges to Black Hills

1 Power for coal. We refer to the calculation as "Statement R"
2 because it corresponds to the statement in the rate case which
3 relates to the sales from affiliates to the utility. In determining what
4 Wyodak Resources can charge Black Hills Power for coal sales we
5 have used what we refer to as the Statement R methodology to
6 determine an amount that would result in Wyodak Resources
7 recovering its cost of service related to the coal sales plus a return
8 on an earned investment base for sales to Black Hills Power equal
9 to the average interest rate for new long-term A-rated utility bonds
10 issued during the calendar year for which the calculation is being
11 made, plus four percentage points.

12 **Q. THROUGH WHAT PROCEEDINGS DID THE SOUTH DAKOTA**
13 **COMMISSION INITIALLY DETERMINE THE METHODOLOGY TO**
14 **LIMIT COAL COSTS CHARGED TO BLACK HILLS POWER?**

15 A. In the Commission's Dockets F-3647-4 and F-3735, the
16 Commission was investigating the effects of the 1986 Tax Reform
17 Act (F-3647-4) and Black Hills' relationship with its former trucking
18 subsidiary, Universal Transport Inc. (F-3735). The Docket F-3735
19 also led to an investigation into coal purchased by Black Hills from
20 Wyodak Resources, its coal subsidiary. This investigation led to a
21 stipulation between Black Hills and the Commission's Staff dated
22 August 1, 1988. A copy of the stipulation is attached as Exhibit
23 PSK-1.

1 **Q. HAS THE COAL PRICE CHARGED TO BLACK HILLS POWER**
2 **BEEN DETERMINED IN THIS MANNER SINCE THE**
3 **STIPULATION?**

4 A. Yes. Corporate accounting is responsible for the preparation of the
5 Statement R calculations to determine the price of coal sales to
6 Black Hills Power and the same Statement R calculations referred to
7 above have been prepared each year and are used in determining
8 the cost of coal to Black Hills Power.

9 **Q. HAVE YOU PREPARED A STATEMENT R CALCULATION FOR**
10 **THE TEST YEAR?**

11 A. Accounting staff under my direction and assigned to Wyodak have
12 prepared a Statement R calculation for the twelve months ended
13 December 31, 2005. The calculation is filed as Statement R of this
14 application.

15 **Q. WHAT IS THE AMOUNT OF THE COAL ADJUSTMENT**
16 **CALCULATED USED IN THE COST OF SERVICE?**

17 A. The coal cost forecast for the twelve months ended December 31,
18 2006, is \$7.60 as shown on workpaper WP-10. This price was used
19 to make an adjustment to the test year as described in the
20 testimony of Christopher J. Kilpatrick.

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

22 A. Yes.