

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

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

DIRECT TESTIMONY OF MARK T. THIES

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Mark T. Thies. My business address is 625 9th Street,
4 Rapid City, South Dakota, 57701.

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

6 A. I am currently employed as Executive Vice President and Chief
7 Financial Officer of Black Hills Corporation. I also serve as Executive
8 Vice President and Chief Financial Officer of Black Hills Corporation's
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 Power"),
12 an operating subsidiary of Black Hills Corporation ("Black Hills").

13 **Q. WOULD YOU PLEASE OUTLINE YOUR EDUCATIONAL AND
14 PROFESSIONAL BACKGROUND?**

15 A. I have a B.A. in Accounting and a B.A. in Business Administration from
16 Saint Ambrose College and I am a Certified Public Accountant. I have
17 been employed by Black Hills Corporation or its predecessors for
18 approximately nine years. I served as Controller from 1997-2000. I

1 was appointed to my current position as Chief Financial Officer in
2 March 2000. Prior to joining Black Hills Corporation, I served in a
3 number of accounting positions with InterCoast Energy Company, an
4 unregulated energy company and wholly owned subsidiary of
5 MidAmerican Energy Holdings Company. Prior to that time, I worked
6 in public accounting.

7 **II. PURPOSE OF TESTIMONY**

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

9 A. The purpose of my testimony is to certify the accounting records of
10 Black Hills Power and provide an overview of Black Hills Service
11 Company and the cost allocation methodologies used in charging
12 general and administrative costs to Black Hills subsidiaries, including
13 Black Hills Power.

14 **III. ACCOUNTING RECORDS**

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

17 A. I am responsible for the Accounting, Finance, Investor Relations and
18 Information Technology functions at Black Hills. I am the Chief
19 Accounting Officer and responsible for the consistent application of
20 generally accepted accounting principles and regulatory accounting
21 principles and related financial reporting of Black Hills and its
22 subsidiaries, including Black Hills Power.

1 Q. ARE YOU FAMILIAR WITH THE BOOKS AND RECORDS OF
2 BLACK HILLS POWER AND THE MANNER IN WHICH THEY ARE
3 KEPT?

4 A. Yes. The financial statements and records have been prepared on the
5 accrual basis in conformity with generally accepted accounting
6 principles and in accordance with accounting requirements of the
7 Federal Energy Regulatory Commission as set forth in its applicable
8 Uniform System of Accounts.

9 Q. HAVE YOU PREPARED OR SUPERVISED THE PREPARATION OF
10 A SERIES OF SCHEDULES, STATEMENTS AND WORKPAPERS
11 WHICH WERE FILED AS PART OF THIS APPLICATION?

12 A. Yes. The statements and schedules filed in Volume 1 of this
13 Application were prepared under my supervision and in accordance
14 with the classifications as set forth in the Federal Energy Regulatory
15 Commission's Uniform System of Accounts for electric utilities as
16 adopted and amended in accordance with rate filing rules currently in
17 effect.

18 IV. BLACK HILLS SERVICE COMPANY

19 Q. WHY WAS BLACK HILLS SERVICE COMPANY FORMED?

20 A. In January 2005, Black Hills Corporation became a registered holding
21 company under the Public Utility Holding Company Act 1935 (PUHCA
22 1935). One of the many requirements under PUHCA 1935 was to
23 form a service company and to transfer employees that perform

1 common functions for Black Hills Corporation's subsidiaries to the
2 Service Company. A copy of the order issued by the United States
3 Securities and Exchange Commission is attached as Exhibit MTT-1.
4 The Service Company was formed on December 30, 2004 and
5 became fully operational on January 1, 2006. Although PUHCA 1935
6 was subsequently repealed, Black Hills continues to operate its
7 business under the service company concept.

8 **Q. WHAT IS THE PURPOSE OF THE SERVICE COMPANY?**

9 A. The Service Company's purpose is to provide various corporate,
10 administrative, management and support services to all of Black Hills'
11 subsidiaries in an efficient and economical way and to ensure these
12 support costs are allocated among them in a fair and equitable
13 manner.

14 **Q. HOW ARE EXPENSES CHARGED TO BLACK HILLS POWER?**

15 A. The Service Company and Black Hills Power are parties to a Service
16 Agreement (Utility) which sets forth the services and charges for
17 service provided by the Service Company. The Service Company
18 charges its expenses of operation at cost to Black Hills Power and
19 other Black Hills Corporation affiliates through direct charges and
20 allocated charges. A copy of the Service Agreement (Utility) is
21 attached to my testimony as Exhibit MTT-2. Service Company costs
22 that can be specifically attributable to Black Hills Power are directly
23 charged to Black Hills Power. Black Hills Power also receives an

1 allocation of Service Company costs that cannot be specifically
2 attributable to any of Black Hill's subsidiaries.

3 **Q. CAN YOU EXPLAIN THE DIFFERENCE BETWEEN DIRECT**
4 **CHARGES AND ALLOCATED CHARGES?**

5 A. Yes. Direct charges are those costs specifically associated with an
6 identified subsidiary or group of identified subsidiaries. Allocated
7 charges are those costs that are not associated with an identified
8 subsidiary, meaning they indirectly support all subsidiaries or directly
9 support the operation of the Service Company. Attached as Exhibit
10 MTT-3 is a copy of the Cost Accounting Manual for the Service
11 Company which provides a more detailed explanation of the treatment
12 of direct and allocated charges.

13 **Q. WHAT EXPENSES ARE CHARGED TO BLACK HILLS POWER**
14 **UNDER THE SERVICE COMPANY METHODOLOGY?**

15 A. The expenses charged to Black Hills Power are primarily related to
16 support services such as accounting, finance, information technology,
17 human resources, risk management and legal. A more detailed
18 description of the services provided by the Service Company is
19 provided in Appendix 1 of the Services Agreement under the heading
20 "Description of Services Provided." This description of services also
21 identifies the method of allocation for each of the services provided by
22 the Service Company.

23 **Q. WHAT METHODOLOGIES ARE USED?**

1 A. A description of the "Allocation Ratios" used by the Service Company
2 to allocate costs that are not directly charged to Black Hills'
3 subsidiaries can be found starting on page 5 of Appendix 1 to the
4 Services Agreement.

5 **Q. ARE THESE A FAIR REPRESENTATION OF THE COSTS TO**
6 **BLACK HILLS POWER?**

7 A. Yes. The methods of allocation used by the Service Company were
8 established by reviewing relevant cost factors and are consistent with
9 industry practice in allocating common costs. In addition, charges that
10 are identified to a specific project or company are directly billed to that
11 project or company. The combination of direct charging of identifiable
12 expenses and allocation of general expenses fairly and accurately
13 represents Black Hills Power's share of Service Company costs
14 incurred by it providing services to its customers.

15 **Q. HAS THE IMPLEMENTATION OF THE SERVICE COMPANY**
16 **AFFECTED THE COSTS CHARGED TO BLACK HILLS POWER?**

17 A. Yes. In a review of costs allocated to Black Hills Power in 2005 to
18 utilizing the direct charge and allocation methodologies of the Service
19 Company, we determined that Black Hills Power will be charged more
20 in 2006. Chris Kilpatrick will discuss the adjustment made to the test
21 year to reflect this known and measurable change.

22 **Q. ARE THERE ANY OTHER FACTORS AFFECTING THE COSTS**
23 **CHARGED BY THE SERVICE COMPANY?**

1 A. Yes. The implementation of Sarbanes-Oxley requirements has
2 significantly increased the costs associated with Securities Exchange
3 Commission reporting, corporate governance, accounting and outside
4 services. Other expenses that have and will continue to impact the
5 costs of providing utility service include significant increases in health
6 care and other benefit costs. These costs continue to increase year to
7 year and as appropriate are directly charged or allocated to the affiliate
8 receiving the benefit of the services using the methodologies
9 discussed above.

10 **Q. DOES BLACK HILLS POWER PROVIDE SERVICES TO ITS**
11 **AFFILIATES?**

12 A. Yes. Black Hills Power provides engineering and operations support
13 for affiliated companies.

14 **Q. HOW ARE THESE SERVICES ACCOUNTED FOR?**

15 A. Black Hills Power bills its affiliates for services on an "at cost" basis.
16 Using a work order system, Black Hills Power is able to charge its
17 material and labor costs to affiliates for work performed on their behalf.
18 Utilizing this system, Black Hills Power does not recognize any
19 expense for these services or materials as they are charged directly to
20 the affiliate.

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

22 A. Yes, it does.