

Direct Testimony and Exhibits  
Stuart A. Wevik

Before the South Dakota Public Utilities Commission  
of the State of South Dakota

In the Matter of the Application of  
Black Hills Power, Inc., a South Dakota Corporation

For Authority to Increase Rates  
in South Dakota

Docket No. EL09-\_\_\_

September 29, 2009

## **Table of Contents**

		Page
I.	Introduction and Qualifications	1
II.	Purpose of Testimony	3
III.	Black Hills Corporation	4
IV.	Recent Events	6
V.	Executive Summary of This Application	8

## **Exhibits**

Exhibit SAW – 1	Black Hills Corporation entity organization chart
Exhibit SAW – 2	List of Black Hills Corporation business groups

**I. INTRODUCTION AND QUALIFICATIONS:**

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

2 A. My name is Stuart A. Wevik. My business address is 409 Deadwood Avenue,  
3 Rapid City, South Dakota 57702.

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

5 A. I am currently employed by Black Hills Utility Holding Company, a wholly-  
6 owned subsidiary of Black Hills Corporation, as Vice President for the Electric  
7 Utilities group, which includes Black Hills Power, Inc. (“Black Hills Power”),  
8 Cheyenne Light, Fuel and Power and Black Hills/Colorado Electric Utility  
9 Company, LP d/b/a Black Hills Energy.

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

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

12 **Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AS VICE  
13 PRESIDENT, ELECTRIC UTILITIES?**

14 A. As Vice President, Electric Utilities, I am responsible for the overall direction and  
15 results for the electric utilities of Black Hills Corporation. My responsibilities  
16 include electric operations, engineering, reliability planning, transmission  
17 planning/operations, 24 X 7 reliability dispatch, regulatory compliance, local  
18 customer service, external affairs, and safety.

1 **Q. WHAT IS YOUR EDUCATIONAL, TRAINING AND EMPLOYMENT**  
2 **BACKGROUND?**

3 A. I graduated from South Dakota State University in May 1984 with a Bachelor of  
4 Science degree in Electrical Engineering.

5 After graduation from South Dakota State University, I held an Electrical Engineer  
6 position with Iowa Southern Utilities Company in Centerville, Iowa.

7 From May 1985 until the present, I have been with Black Hills Corporation and  
8 have held several positions with Black Hills Power. From 1985 to 1990 I held an  
9 Electrical Engineer position and worked on the planning, design, construction and  
10 operation of Black Hills Power's electric distribution system.

11 From 1990 to 1997, I was the Manager of Distribution for Black Hills Power. I  
12 was responsible for managing the construction and maintenance department,  
13 including the direction of staff, contractors, and equipment in the reliable and  
14 efficient operation, construction, and maintenance of the electric distribution  
15 system.

16 From 1997 to 2001, I was the Rapid City Area Manager for Black Hills Power.  
17 My responsibilities included providing leadership and direction for all Rapid City  
18 area customer service functions, marketing activity, economic development, and  
19 customer and community relations.

20 For the period 2001 to 2003, I was the Director of Customer Service for Black  
21 Hills Power. My responsibilities included providing leadership and direction for

1 all Black Hills Power customer service functions, marketing activity, economic  
2 development and customer and community relations.

3 Commencing in April 2003, I was the Vice President and General Manager of  
4 Black Hills Power, and was responsible for overall direction and results for  
5 electric operations, engineering, customer service, marketing, economic  
6 development, and customer and community relations.

7 From October 2004 to July 2008, I was the Vice President of Operations for the  
8 Retail Business Unit of Black Hills Corporation. Initially, I was responsible for  
9 operations, engineering and service delivery for Black Hills Power and Black Hills  
10 FiberCom. Following the acquisition of Cheyenne Light, Fuel and Power and the  
11 divestiture of Black Hills FiberCom in 2005, I was responsible for overall direction  
12 and results of gas and electric operations, engineering, customer service,  
13 marketing, economic development, and customer and community relations for  
14 Black Hills Power and Cheyenne Light, Fuel and Power.

15 From July 2008 to present I have served as Vice President, Electric Utilities for  
16 Black Hills Corporation.

17 **II. PURPOSE OF TESTIMONY**

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

19 A. The purpose of my testimony is to give an overview of Black Hills Corporation,  
20 including a description of the relationship between that entity and Black Hills  
21 Power, and a description of other utilities and non-regulated businesses owned by  
22 Black Hills Corporation. I will provide an update regarding recent transactions

1 and events regarding Black Hills Corporation. Finally, I will provide an  
2 introduction to this rate case in the form of an executive summary of the  
3 application.

4 **III. BLACK HILLS CORPORATION**

5 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF BLACK HILLS**  
6 **CORPORATION.**

7 A. Black Hills Corporation is a diversified energy company with a 126 year history  
8 that is headquartered in Rapid City, South Dakota. Black Hills Corporation  
9 operates as a “holding company” under the Public Utility Holding Company Act  
10 of 2005. It operates principally in the United States with two major business  
11 groups: 1) Utilities – which deliver retail electric and natural gas service, and 2)  
12 Non-regulated Energy – which is involved in various wholesale energy businesses.

13 **Q. WHAT IS BLACK HILLS CORPORATION’S BUSINESS PHILOSOPHY?**

14 A. Black Hills Corporation is a strong, diversified energy company that holds itself to  
15 a high standard of customer service and strives to provide safe, reliable and  
16 affordable service to its customers. Black Hills Corporation and its subsidiaries  
17 are active partners in the communities they serve and work diligently to be a  
18 positive source of support within those communities.

19 **Q. WHAT IS THE RELATIONSHIP BETWEEN BLACK HILLS**  
20 **CORPORATION AND BLACK HILLS POWER?**

21 A. Black Hills Power is a wholly-owned subsidiary of Black Hills Corporation.  
22 Black Hills Power is a component of Black Hills Corporation’s Utilities Business

1 Segment. Attached as Exhibit SAW-1 is the organization chart for Black Hills  
2 Corporation and its subsidiaries. Attached as Exhibit SAW-2 is the listing of  
3 subsidiaries and the classification of those subsidiaries into the two major business  
4 groups - Utilities and Non-regulated Energy.

5 **Q. WHAT OTHER UTILITIES ARE OWNED BY BLACK HILLS**  
6 **CORPORATION?**

7 A. In January 2005 Black Hills Corporation acquired Cheyenne Light, Fuel and  
8 Power, which provides both electric and natural gas services. Cheyenne Light,  
9 Fuel and Power is a regulated utility and serves approximately 38,700 electric and  
10 32,500 natural gas customers in Cheyenne, Wyoming, and parts of Laramie  
11 County, Wyoming. In July 2008, Black Hills Corporation acquired the natural gas  
12 assets of Aquila, Inc. in Nebraska, Kansas, Colorado and Iowa, and the electric  
13 utility assets of Aquila, Inc. in Colorado. Those entities serve approximately  
14 523,000 natural gas customers in Nebraska, Kansas, Colorado and Iowa and  
15 92,000 electric customers in Colorado.

16 **Q. WHAT ARE THE COMPANIES INCLUDED IN THE NON-REGULATED**  
17 **ENERGY GROUP OF BLACK HILLS CORPORATION?**

18 A. Black Hills Corporation's Non-regulated Energy businesses include: Wyodak  
19 Resources Development Corporation, which is engaged in coal production and  
20 sales; Black Hills Exploration and Production, Inc., which is engaged in oil and  
21 natural gas production; Enserco Energy, Inc., which is engaged primarily in

1 natural gas and oil marketing; and Black Hills Electric Generation, LLC and its  
2 subsidiaries, which are engaged in independent power production.

3 **IV. RECENT EVENTS**

4 **Q. PLEASE GIVE A BRIEF DESCRIPTION OF BLACK HILLS**  
5 **CORPORATION'S SALE OF INDEPENDENT POWER PRODUCTION**  
6 **ASSETS.**

7 A. On July 11, 2008, Black Hills Corporation completed the sale of seven non-  
8 regulated, independent power production gas-fired plants to affiliates of Hastings  
9 Funds Management and IIF BH Investment for \$840 million. The plants that were  
10 subject to this sale were located in Colorado, Nevada, New Mexico and California.  
11 This sale had no effect on Black Hills Power's assets, operations or customers.

12 **Q. PLEASE GIVE A GENERAL DESCRIPTION OF THE AQUILA, INC.**  
13 **TRANSACTION.**

14 A. Black Hills Corporation purchased the natural gas utility assets of Aquila, Inc. in  
15 Nebraska, Kansas, Colorado and Iowa as well as the electric utility assets in  
16 Colorado on July 14, 2008. Black Hills Corporation obtained these assets for an  
17 acquisition price of \$940 million and maintained its investment grade credit rating.  
18 The operating employees working for Aquila in those four states were retained and  
19 have continued to operate the acquired assets.

1 **Q. WHAT EFFECT DID THE AQUILA ASSET PURCHASE HAVE ON**  
2 **BLACK HILLS POWER CUSTOMERS?**

3 A. Due to significant planning and pre-acquisition efforts, the transition was seamless  
4 to both legacy customers at Black Hills Power and Cheyenne Light, Fuel and  
5 Power as well as the newly acquired customers. Black Hills Power continues to  
6 have a strong management team in place that is responsible for its operational,  
7 customer service, and financial results.

8 The Aquila purchase has induced unification projects across the Utilities business  
9 group that will provide benefits to Black Hills Power customers. One of those  
10 benefits is expanded customer service availability to Black Hills Power customers  
11 which went into effect in August 2009. During that month, 25 percent of Black  
12 Hills Power's incoming customer phone calls were outside of historic business  
13 hours and would have previously gone unanswered. The Aquila transaction also  
14 brought with it an opportunity to share and deploy best practices in areas such as  
15 construction standards and materials, and various operations and maintenance  
16 programs.

17 In addition to unification and best practice deployment, Black Hills Power  
18 customers are now served by a company that is part of a corporation that has  
19 increased its financial strength. The Aquila purchase significantly reduced  
20 financial risks and contributed to Black Hills Corporation maintaining its credit  
21 rating in the most turbulent credit market this nation has experienced since the  
22 1930s.

1                   **V.     EXECUTIVE SUMMARY OF THIS APPLICATION**

2     **Q.     WHAT IS BLACK HILLS POWER PROPOSING IN ITS APPLICATION?**

3     A.     First, Black Hills Power is seeking to add its new power plant, Wygen III, to rate  
4           base, and to add certain costs and expenses associated with Wygen III as  
5           adjustments to the test year. Second, Black Hills Power is seeking a rate increase  
6           to recover additions to rate base related operations and maintenance for system  
7           reliability and customer growth. Finally, Black Hills Power is seeking approval of  
8           changes to and clarifications of its energy cost adjustments.

9           Black Hills Power is proposing an approximate 26.6 percent increase in revenue  
10          for its South Dakota customers. The proposed additions to rate base and the  
11          changes to the rate schedules would increase revenues from South Dakota  
12          customers by approximately \$32,000,000, based on sales of electric energy for the  
13          twelve months ended June 30, 2009. The proposed changes would affect  
14          approximately 64,100 customers. The effective date of the proposed changes is to  
15          coincide with the in-service date of the Wygen III power plant, which is expected  
16          to be April 1, 2010, but no earlier than March 1, 2010.

17          Black Hills Power believes that the requested items will result in just and  
18          reasonable rates for our South Dakota retail customers.

19     **Q.     WHY IS BLACK HILLS POWER FILING THIS APPLICATION AT THIS**  
20           **TIME?**

21     A.     Black Hills Power is filing this application to allow for new rates to coincide with  
22           the in-service date of Wygen III.

1 **Q. WHAT IS WYGEN III?**

2 A. Wygen III is an air cooled, coal fired power plant with a 100 MW net generating  
3 capacity. Wygen III is located at the Neil Simpson Energy Complex  
4 approximately eight miles east of Gillette, Wyoming. Construction on Wygen III  
5 began in March 2008 and Wygen III is expected to be completed and in-service by  
6 April 1, 2010. A coal mine owned by Wyodak Resources Development  
7 Corporation (“Wyodak”), a wholly owned subsidiary of Black Hills Corporation,  
8 is located adjacent to the Wygen III plant and will provide the fuel for the plant.  
9 Wygen III is described in more detail in the testimony of Mark Lux.

10 **Q. WHAT ARE THE CAPITAL EXPENDITURES RELATED TO WYGEN**  
11 **III?**

12 A. The construction of Wygen III is continuing as of the date of this application. The  
13 original budget for Wygen III, as approved by Black Hills Power’s Board of  
14 Directors was \$255 million and the project is expected to be completed under  
15 budget. The capital expenditures related to Wygen III are described in more detail  
16 in the testimony of Mark Lux.

17 As described in the testimony of Tom Ohlmacher, 25 percent of the Wygen III  
18 project was sold to Montana Dakota Utilities. In addition, Black Hills Power  
19 presently provides 23 megawatts of base load resource to the City of Gillette  
20 pursuant to a Power Purchase Agreement. The parties are negotiating to convert  
21 this Power Purchase Agreement to a cost of service or similar arrangement.  
22 Therefore, the assumption of this Application is that only 52 percent of Wygen III

1 will be included in the cost of service model for the customers of Black Hills  
2 Power. This equates to an estimated cost for Wygen III to Black Hills Power  
3 regarding Wygen III of approximately \$128.5 million.

4 Pursuant to the American Recovery and Reinvestment Act of 2009 (“2009  
5 Stimulus Bill”), BHP expects to receive a 50 percent bonus depreciation on  
6 Wygen III. Therefore, the net amount relating to Wygen III requested to be added  
7 to rate base, after a net deferred tax liability of \$20 million, is approximately \$110  
8 million. This is described in greater detail in the testimony of Christopher J.  
9 Kilpatrick.

10 **Q. WHY IS THE COMPANY SEEKING TO RECOVER THE COSTS**  
11 **RELATING TO WYGEN III?**

12 A. Additional supply resources are necessary to serve projected customer load and to  
13 maintain reliability standards. Results from a comprehensive resource planning  
14 process conducted by Black Hills Power indicate that Wygen III was the best  
15 alternative to satisfy the need for additional supply resources. Therefore, the  
16 capital expenditures related to Wygen III should be placed into rate base.

17 **Q. WHAT WERE THE ELEMENTS OF BLACK HILLS POWER’S**  
18 **RESOURCE PLANNING PROCESS?**

19 A. Black Hills Power retained Jill Tietjen, a Denver, Colorado, utility resource  
20 planning expert, to work with Black Hills Power to prepare a comprehensive  
21 Integrated Resource Plan (“IRP”) for Black Hills Power. The IRP identifies the  
22 supply resource additions required to ensure reliable and cost-effective electric

1 service to Black Hills Power customers now and into the future. As more fully set  
2 forth in the testimony of Ms. Tietjen, she examined a full range of resource  
3 alternatives in the preparation of the IRP, a copy of which is Exhibit JST-2 to her  
4 testimony.

5 Utilizing IRP modeling, Black Hills Power examined a list of required supply  
6 resource additions, modifications and upgrades that would ensure reliable and  
7 cost-effective electric service for its customers. The results of the IRP modeling  
8 determined that Wygen III was the best supply resource option for Black Hills  
9 Power customers. The construction of Wygen III was also the best alternative  
10 from a business standpoint, given the age of Black Hills Power's fleet of  
11 generation facilities, which has an average age of 35 to 40 years.

12 The final plan adopted by Black Hills Power meets these important objectives:

- 13 • Ensure a reasonable level of price stability for its customers;
- 14 • Generate and provide safe, reliable electricity service while  
15 complying with all environmental standards;
- 16 • Manage and minimize energy market and fuel risk; and
- 17 • Continually evaluate renewable energy options for its energy supply  
18 portfolio, being mindful of the impact on customer rates.

19 The Black Hills Power IRP considered the possibility of a carbon tax – a tax on  
20 the emission of carbon dioxide and other so-called greenhouse gases – or similar  
21 type carbon dioxide compliance legislation. Even with the possibility of a carbon  
22 tax or compliance legislation, the IRP confirmed the selection of the coal-fired

1 Wygen III as the least-cost resource addition to provide reliable, low cost service  
2 to customers of Black Hills Power. After due consideration of the various factors,  
3 the Black Hills Corporation Board of Directors approved the Wygen III project.

4 This is supported by the testimony of Jill Tietjen and Thomas Ohlmacher.

5 **Q. WAS BLACK HILLS POWER REQUIRED TO FILE FOR A CPCN IN**  
6 **WYOMING REGARDING WYGEN III?**

7 A. Yes, since Wygen III was to be constructed in the State of Wyoming, Black Hills  
8 Power filed an application for a Certificate of Public Convenience and Necessity  
9 (“CPCN”) with the Wyoming Public Service Commission prior to commencement  
10 of construction. The Wyoming Public Service Commission reviewed the  
11 application, conducted a hearing, and issued an order in March 2008 that granted  
12 Black Hills Power a CPCN.

13 **Q. WHY IS THIS NEW GENERATION PLANT KNOWN AS WYGEN III**  
14 **GOOD FOR CUSTOMERS OF BLACK HILLS POWER?**

15 A. Energy markets can be volatile. Without rate-based supply resource facilities,  
16 customer rates would lack price stability and would fluctuate as regional and  
17 national energy markets change. Wygen III provides price stability to Black Hills  
18 Power customers at a very competitive cost.

19 While there is significant up front capital costs associated with Wygen III, Black  
20 Hills Power customers will have the benefit of a long-term supply resource asset  
21 that has a value that depreciates over the life of the facility. Black Hills Power  
22 believes, and the results of the IRP confirm, that overall costs to customers will be

1 lower with Wygen III than any other supply resource addition, including long-term  
2 purchased power.

3 Black Hills Power has a strong track record of effectively constructing, operating  
4 and maintaining generation assets. It is beneficial to customers if Black Hills  
5 Power is able to control a significant portion of its supply resources rather than  
6 rely on other parties. Black Hills Power customers benefit by receiving cost-  
7 effective electrical service with a measure of price stability from rate-based  
8 resources that are efficiently operated and maintained by Black Hills Power  
9 personnel. Therefore, the decision to construct Wygen III was the correct decision  
10 for Black Hills Power and its customers.

11 **Q. WHAT ACTION HAS BLACK HILLS POWER TAKEN TO MITIGATE**  
12 **INCREASING COSTS?**

13 A. Black Hills Power has taken several steps to mitigate costs related directly to the  
14 construction of Wygen III. The electricity needs of the customers of Black Hills  
15 Power continue to increase and generation facilities must be built in advance to  
16 ensure the reliability of electricity to those customers. Nevertheless, Black Hills  
17 Power recognizes that opportunities for cost-effective resource additions are not  
18 always of similar scale and timing to load-serving requirements. That is one of the  
19 reasons that Black Hills Power is proposing in this Application to put only 52  
20 percent of the cost of Wygen III into rate base. To further minimize the impact,  
21 Black Hills Power is taking bonus depreciation under the 2009 Stimulus Bill. As a  
22 result of the above items, only \$110 million of the budgeted \$255 million cost of

1 Wygen III is being requested to be added to rate base. Finally, under Black Hills  
2 Power's management, Wygen III is being constructed under budget and ahead of  
3 schedule.

4 Coal is a low-cost fuel source, particularly given the mine-mouth operations of  
5 Black Hills Corporation that eliminate the transportation cost of coal. Owning and  
6 operating a generation facility insulates Black Hills Power customers from cost  
7 fluctuations that may result from buying large quantities of power on the open  
8 market.

9 **Q. IS BLACK HILLS POWER ALSO REQUESTING APPROVAL OF**  
10 **OTHER COSTS AND EXPENSES ASSOCIATED WITH WYGEN III?**

11 A. Yes. Black Hills Power is requesting approval of adjustments to the test year  
12 related to other Wygen III costs and expenses. The annual costs associated with  
13 Wygen III include projected operating and maintenance costs, projected book  
14 depreciation, fuel (coal) cost and real property taxes. These costs are supported by  
15 the testimony of Mark Lux (with regard to projected operating and maintenance  
16 costs), Christopher J. Kilpatrick (with regard to real property taxes), Larry Loos  
17 (with regard to projected book depreciation) and Tom Ohlmacher (with regard to  
18 fuel (coal) cost).

19 **Q. ARE THERE OTHER REASONS FOR FILING THIS RATE**  
20 **APPLICATION?**

21 A. Yes. Black Hills Power is requesting a rate increase to recover increasing costs  
22 related to its provision of safe and reliable electric service to its customers. This

1 includes ongoing capital investments for system reliability and customer growth,  
2 which is supported by the testimony of Christopher J. Kilpatrick.

3 In addition, Black Hills Power is requesting changes to its Conditional Energy  
4 Cost Adjustment tariff (“CECA”) and to its Steam Plant Fuel Cost Adjustment  
5 (“SPFCA”). The CECA and SPFCA formulas were approved as part of the 2006  
6 Commission Settlement Order, and through the experience of using these formulas  
7 since 2006, Black Hills Power has determined that certain parts of the formulas  
8 require clarification. These changes and clarifications are described in detail in  
9 the testimony of Christopher J. Kilpatrick.

10 **Q. PLEASE EXPLAIN THE ADJUSTMENT YOU ARE MAKING FOR**  
11 **DEPRECIATION EXPENSE.**

12 A. In order to more accurately identify our depreciation expense, Black Hills Power  
13 retained Black & Veatch as consultants to conduct a complete depreciation study  
14 to assess our depreciation rates. The testimony of Larry Loos of Black & Veatch  
15 supports the depreciation rates used in preparation of the cost of service.

16 **Q. HAS BLACK HILLS POWER PREPARED A COST OF SERVICE**  
17 **MODEL?**

18 A. Yes, Black Hills Power prepared a Cost of Service (“COS”) model. The COS  
19 model is explained in detail in the testimony of Christopher J. Kilpatrick.

1 **Q. IS BLACK HILLS POWER USING THE SAME COS MODEL THAT WAS**  
2 **USED IN THE 2006 RATE APPLICATION?**

3 A. Yes, as explained in the testimony of Christopher J. Kilpatrick, the COS model  
4 being used in this rate application is the same general COS model used in the 2006  
5 rate application. There is no new methodology, and the model is consistent with  
6 generally accepted utility accounting practices.

7 **Q. WHAT OTHER ITEMS ARE YOU PROPOSING IN YOUR**  
8 **APPLICATION?**

9 A. Our application includes a Return on Equity of 11.50 percent which will be  
10 supported in testimony by Dr. William Avera, our cost of capital consultant of  
11 Fincap, Inc. Our cost of debt is our actual cost of 6.85 percent and is supported in  
12 testimony of Anthony S. Cleberg and Dr. Avera. Our resulting regulated rate of  
13 return is 9.27 percent which will be supported in testimony by Anthony S.  
14 Cleberg.

15 **Q. HOW DOES BLACK HILLS POWER INTEND TO SPREAD THE RATE**  
16 **INCREASE AMONG THE CUSTOMER CLASSES?**

17 A. The request is for an across-the-board rate increase and our rates have been  
18 designed to meet this objective.

19 **Q. WHAT IS THE FINANCIAL OUTLOOK FOR BLACK HILLS POWER?**

20 A. With the approval of the proposals contained in our rate case application, we  
21 believe that Black Hills Power will experience continued modest revenue growth  
22 and stable earnings for the next several years. Black Hills Power continues to

1 consider cost effective ways to better serve its customers with safe, reliable  
2 service. Black Hills Power continues to focus on customer service, high  
3 reliability, and safety, while continuing its commitment to community support.

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

5 A. Yes, it does.