

Direct Testimony and Exhibits
Jeff Berzina

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. EL12-____

December 17, 2012

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EXHIBITS

Exhibit JB-1: Service Agreement – (Black Hills Power & Service Company)

Exhibit JB-2: Service Agreement – (Black Hills Power & Utility Holdings)

Exhibit JB-3: Cost Allocation Manual (CAM) –Service Company

Exhibit JB-4: Cost Allocation Manual (CAM) – Utility Holdings

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Jeff Berzina. My business address is 625 9th Street, Rapid City,
4 South Dakota 57701.

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

6 A. I am currently employed by Black Hills Service Company as Vice President and
7 Corporate Controller.

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

9 A. I am appearing on behalf of Black Hills Power, Inc. (“Company” or “Black Hills
10 Power”), a wholly owned subsidiary of Black Hills Corporation.

11 **Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL**
12 **BACKGROUND.**

13 A. I have a B.S. degree in Accounting from the University of South Dakota and I am a
14 Certified Public Accountant (South Dakota). I began my career with Black Hills
15 Corporation in 2000, and I have worked in various positions within the Accounting
16 and Finance area. I have held the position of Vice President and Corporate
17 Controller of Black Hills Corporation since 2009 where I oversee the Accounting
18 and Finance functions, including both our regulated and non-regulated businesses.
19 Prior to joining Black Hills Corporation, I worked in public accounting where I
20 performed audit and tax related services.

1 **Q. PLEASE DESCRIBE YOUR DUTIES AND RESPONSIBILITIES IN YOUR**
2 **CURRENT POSITION.**

3 A. I am responsible for the consistent application of generally accepted accounting
4 principles (“GAAP”) and regulatory accounting principles in accordance with
5 Federal Energy Regulatory Commission (“FERC”) and related financial reporting
6 of Black Hills Corporation and its subsidiaries and affiliates, including Black Hills
7 Power.

8 **II. PURPOSE OF TESTIMONY**

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

10 A. The purpose of my testimony is to support the following areas of the rate
11 application:

- 12 • Certify Books and Records of Black Hills Power
- 13 • Certify Use of FERC Uniform System of Accounts for Black Hills Power
- 14 • Explain the structure of Black Hills Service Company (Service Company)
15 and Black Hills Utility Holdings, Inc. (Utility Holdings)
- 16 • Describe Cost Allocation Procedures

17 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

18 A. Yes, I am. I am sponsoring Exhibit Nos. JB-1 through JB-4 which I will describe
19 and refer to in my testimony. The Exhibits attached to this testimony are as
20 follows:

- 21 • **Exhibit JB-1:** Service Agreement – (Black Hills Power & Service
22 Company)

- 1 • **Exhibit JB-2:** Service Agreement – (Black Hills Power & Utility Holdings)
- 2 • **Exhibit JB-3:** Cost Allocation Manual (CAM) –Service Company
- 3 • **Exhibit JB-4:** Cost Allocation Manual (CAM) – Utility Holdings

4 **Q. HAVE THE TESTIMONY AND EXHIBITS WHICH YOU ARE**
5 **SPONSORING BEEN PREPARED BY YOU OR UNDER YOUR**
6 **SUPERVISION?**

7 A. Yes.

8 **III. ACCOUNTING RECORDS**

9 **Q. ARE YOU FAMILIAR WITH THE BOOKS AND RECORDS OF BLACK**
10 **HILLS POWER AND THE MANNER IN WHICH THEY ARE KEPT?**

11 A. Yes. I certify the financial statements and records have been prepared in
12 conformity with GAAP and in accordance with accounting requirements of the
13 FERC as set forth in its applicable Uniform System of Accounts.

14 **IV. FUNCTIONS OF THE SERVICE COMPANIES**

15 **Q. WHY WAS BLACK HILLS SERVICE COMPANY FORMED?**

16 A. In January 2005, Black Hills Corporation became a registered holding company
17 under the Public Utility Holding Company Act 1935 (“PUHCA 1935”). One of
18 the many requirements under PUHCA 1935 was to form a service company and to
19 transfer employees that perform common functions for Black Hills Corporation’s
20 subsidiaries to the Service Company. The Service Company was formed on
21 December 30, 2004, and became fully operational on January 1, 2006. PUHCA
22 1935 was subsequently repealed, and the Energy Policy Act of 2005 created the

1 Public Utility Holding Company Act of 2005. This act moved the jurisdiction of
2 service companies to the FERC.

3 **Q. WHAT IS THE PURPOSE OF BLACK HILLS SERVICE COMPANY?**

4 A. The purpose of Service Company is to provide various support services, both
5 administrative and management, to all of Black Hills Corporation's subsidiaries in
6 an efficient and economical way and to ensure these support costs are allocated
7 among Black Hills Corporation and its subsidiaries in a fair and equitable manner.

8 **Q. WHY WAS UTILITY HOLDINGS FORMED?**

9 A. Black Hills Corporation originally formed Utility Holdings to hold and clearly
10 separate the regulated utility assets acquired by Black Hills Corporation in 2008
11 (i.e.: former Aquila assets). Utility Holdings is a subsidiary of Black Hills
12 Corporation, and its employees currently provide utility operations services for all
13 of Black Hills Corporations' regulated utilities.

14 **Q. WHAT IS THE PURPOSE OF BLACK HILLS UTILITY HOLDINGS?**

15 A. The purpose of Utility Holdings is to provide certain services, principally related
16 to engineering and planning, customer service, billing and information technology,
17 to the regulated utilities (such as Black Hills Power) that are owned by or
18 subsidiaries of Black Hills Corporation.

19 **Q. DOES BLACK HILLS POWER OBTAIN SERVICES FROM BLACK
20 HILLS SERVICE COMPANY?**

21 A. Yes. This avoids the duplication of these business functions by each of the
22 regulated and non-regulated business units of Black Hills Corporation. By

1 providing support services on a centralized basis, efficiencies are created when
2 compared to stand-alone business functions.

3 **Q. DOES BLACK HILLS POWER OBTAIN SERVICES FROM UTILITY**
4 **HOLDINGS?**

5 A. Yes. This avoids the duplication of these business functions by each of the
6 regulated business units of Black Hills Corporation. By providing support
7 services on a centralized basis, efficiencies are created when compared to stand-
8 alone business functions.

9 **Q. ARE THESE SERVICES PROVIDED UNDER A WRITTEN**
10 **AGREEMENTS?**

11 A. Yes, Black Hills Power has Service Agreements with Service Company and
12 Utility Holdings. Both Service Company and Utility Holdings provide their
13 services at cost to Black Hills Power and other Black Hills Corporation affiliates
14 through direct charges and indirect charges. Expenses for support services are
15 charged to Black Hills Power on a monthly basis pursuant to the Service
16 Agreements. A copy of the Service Company Service Agreement is attached to my
17 testimony as Exhibit JB-1. A copy of the Utility Holdings Service Agreement is
18 attached as Exhibit JB-2.

1 **V. DESCRIPTION OF COST ALLOCATION MANUAL**

2 **Q. HOW ARE EXPENSES CHARGED TO BLACK HILLS POWER BY**
3 **SERVICE COMPANY AND UTILITY HOLDINGS?**

4 A. Expenses, as well as fixed assets, are charged to Black Hills Power through an
5 allocation process described in both the Service Company Allocation Manual and
6 Utility Holdings Allocation Manual.

7 **Q. DOES THE COST ALLOCATION MANUAL DESCRIBE THE**
8 **METHODOLOGIES USED FOR ALLOCATION?**

9 A. Yes. The methodologies are described on pages 9-10 for the Service Company
10 Cost Allocation Manual (CAM) and pages 8-9 for the Utility Holdings CAM.
11 The departments and services provided by Service Company and Utility Holdings
12 are different. The Service Company provides support services such as
13 accounting/finance, administrative, management, legal counsel, and human
14 resources, to all regulated and non-regulated business units of Black Hills
15 Corporation. Conversely, Utility Holdings provides services related to only the
16 regulated businesses of Black Hills Corporation such as engineering and
17 transmission planning, customer service, billing, and information technology. In
18 addition, Black Hills Power does not receive services from every department of
19 the Service Company or Utility Holdings. A copy the Cost Allocation Manual
20 (CAM) for Service Company is attached as Exhibit JB-3. A copy the Cost
21 Allocation Manual for Utility Holdings is attached as Exhibit JB-4.

1 **Q. HAVE THE CAMS BEEN PROVIDED TO ANY REGULATORY**
2 **COMMISSION?**

3 A. Yes. The Service Company CAM and the Utility Holdings CAM have been
4 previously provided to other Commissions in which Black Hills Corporation
5 operates its regulated utility businesses. The Service Company CAM was
6 previously provided to this Commission in the Company's 2009 rate case.

7 **Q. IS IT NORMAL PRACTICE FOR DIVERSIFIED UTILITIES TO USE**
8 **CAMS FOR COMMON BUSINESS COSTS?**

9 A. Yes. The CAM was designed to distribute support costs to subsidiaries.
10 Efficiencies are gained by Black Hills Corporation and each of its affiliates by
11 providing support services on a centralized basis rather than as a stand-alone
12 business function.

13 **Q. CAN YOU EXPLAIN THE DIFFERENCE BETWEEN DIRECT AND**
14 **INDIRECT CHARGES?**

15 A. Yes. Direct charges are those costs specifically associated with providing support
16 to an identified subsidiary or group of identified subsidiaries. This means that the
17 costs are known exactly to which subsidiary or group of subsidiaries these costs
18 relate to. An example of a direct cost would be a person in the Regulatory
19 Department working on this rate case. The person would directly charge their
20 time spent working on this rate case to Black Hills Power. Indirect charges are
21 those costs that are not associated with an identified subsidiary, meaning they
22 indirectly support all subsidiaries or directly support the operation of the

1 applicable Service Company or Utility Holdings. An example of an indirect cost
2 would be a person in the Regulatory Department attending training related to
3 electric utilities. The cost would be allocated among all of Black Hills
4 Corporation's electric utilities, as the training is associated with electric utilities in
5 general, rather than a specific electric utility. The Cost Allocation Manuals
6 provide a more detailed explanation of the treatment of direct and indirect costs.

7 **Q. HOW ARE THESE SERVICES BILLED TO BLACK HILLS**
8 **CORPORATION'S DIFFERENT SUBSIDIARIES?**

9 A. The cost of services that can be directly assigned to a subsidiary are billed directly
10 to that business unit. This is true for all of Black Hills Corporation's subsidiaries.
11 The indirect costs that are attributable to more than one business unit are allocated
12 based on a formula that is designed to result in a fair and equitable allocation for
13 those costs. Indirect costs are allocated using one of several pre-defined allocation
14 factors. All indirect costs of that department are then allocated using that factor.
15 When determining which allocation factor should be assigned to each cost center,
16 a factor was selected based on the specific cost driver of that department. For
17 example, Utility Holdings department 5712, bill processing, is allocated based on
18 customer count ratio. This pre-defined allocation was used as the number of bills
19 processed relates to the number of customers by utility. For certain cost centers, a
20 specific cost driver may not be clearly identifiable or the driver may not be cost
21 efficient to compute on a continuing basis. In these instances, a three-pronged
22 general allocation factor is used, which is referred to as the blended ratio. In

1 addition, some departments utilize a “holding company blended ratio.” The
2 difference between the blended ratio and the holding company blended ratio is that
3 the holding company blended ratio allocates a percentage of costs to Utility
4 Holdings.

5 **Q. DO THESE ALLOCATIONS OF INDIRECT COSTS RESULT IN A FAIR**
6 **COST BEING BILLED TO BLACK HILLS POWER?**

7 A. Yes. The methods used by the Service Company and Utility Holdings were
8 established by reviewing relevant cost factors and are consistent with industry
9 practice in allocating common costs. In addition, services that are identified to a
10 specific project or company are directly billed to that project or company. The
11 combination of assigning direct costs for identifiable expenses and allocation of
12 indirect costs fairly and accurately represents Black Hills Power’s share of the
13 costs of Service Company and Utility Holdings in the provision of services to
14 Black Hills Power.

15 **Q. IS THERE AN ADJUSTMENT FOR SERVICE COMPANY AND UTILITY**
16 **HOLDINGS ALLOCATIONS IN THE REVENUE REQUIREMENT**
17 **MODEL?**

18 A. Yes. Schedules H-4 and H-5 contains the corporate costs charged to Black Hills
19 Power from Service Company and Utility Holdings, respectively, for the twelve
20 months ending June 30, 2012. The total pro forma adjustment is \$1,119,825 for
21 Service Company and \$2,508,618 for Utility Holdings.

1 Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes.