

Direct Testimony and Exhibit
Richard C. Loomis

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

TABLE OF CONTENTS

I. Introduction And Qualifications..... 1

II. Purpose Of Testimony..... 2

III. Summary Of My Testimony..... 3

IV. Executive Summary..... 3

V. Business Overview Of Black Hills Power 6

VI. Overview Of Base Rate Increase Request..... 9

VII. Requested Transmission Facility Cost Adjustment Tariff 14

VIII. System Reliability And Customer Service 15

IX. Strategic Workforce Planning Process 20

X. Demand Side Management Activities 22

XI. Introduction Of Witnesses..... 23

EXHIBITS

Exhibit RCL-1

Customer Survey Summary

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Richard C. (Chuck) Loomis. My business address is 409 Deadwood
4 Avenue, Rapid City, South Dakota 57702.

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

6 A. I am employed by Black Hills Power, Inc. ("Black Hills Power" or "Company") as
7 Vice President, Operations.

8 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND**
9 **AND EMPLOYMENT HISTORY.**

10 A. I earned a Master of Business Administration degree from Bowling Green State
11 University in Bowling Green, Ohio, and a Bachelor of Business Administration
12 degree with a major in Accounting from the University of Toledo, Toledo, Ohio.
13 In addition, I have completed courses related to rate regulation of natural gas and
14 electric utilities and natural gas and electric distribution operations sponsored by
15 various industry organizations and associations. I joined Michigan Gas Utilities
16 ("MGU") in 1985 as General Accountant. From 1987 through 1994, I worked in
17 positions with increasing responsibility in MGU's Rates and Regulatory Affairs
18 function, becoming Manager in 1992. In 1989, Aquila, Inc. (then UtiliCorp
19 United) ("Aquila") acquired MGU from Michigan Energy Resources Company
20 and continued to operate MGU as a separate division.

21 From 1994-1997, I served as State Administrator in Michigan, and in July 1997,
22 relocated to Omaha, Nebraska to become Aquila's Asset Manager for Iowa and

1 Nebraska. In this position, I was responsible for the operational and financial
2 performance of Aquila's gas distribution assets serving nearly 325,000 customers
3 in these two states. I became Manager of Aquila's Nebraska Business Operations
4 as part of a corporate restructuring in 2002. I was named Aquila's Vice President,
5 Kansas and Colorado Gas Operations in February 2004. On July 14, 2008, Black
6 Hills Corporation acquired certain natural gas and electric utility assets from
7 Aquila, including the Kansas and Colorado natural gas utility assets for which I
8 was responsible. On July 14, 2008, I joined Black Hills Power as Vice President,
9 Operations.

10 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED TO BLACK**
11 **HILLS POWER'S ELECTRIC OPERATIONS.**

12 A. I am responsible for the leadership and management of Black Hills Power's
13 electric operations in South Dakota, Wyoming and Montana. I directly oversee
14 state operating functions, including electric distribution network operations,
15 maintenance, construction, local customer service, customer relations and
16 community relations.

17 **II. PURPOSE OF TESTIMONY**

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. The purpose of my testimony in this proceeding is to provide an executive
21 summary of this filing. I also provide an overview of Black Hills Power's
22 operations and its focus on safe, reliable service. I will also provide an overview

1 of the need for this base rate increase. I will provide support for a known and
2 measurable adjustment related to Strategic Workforce Planning. And finally, I
3 introduce the Company witnesses providing testimony supporting the application.

4 **III. SUMMARY OF MY TESTIMONY**

5 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

6 A. Black Hills Power has been, and will continue to be, a very good operator of its
7 electric utility system, with a high level of focus on providing safe, reliable,
8 quality service to our customers. Black Hills Power emphasizes compliance with
9 all regulatory rules and policies, and works diligently to attract, train and retain
10 employees dedicated to planning, designing, constructing, operating and
11 maintaining its electric utility system. Black Hills Power has built a strong
12 tradition of building and maintaining positive relationships with its customers,
13 communities and regulators and will continue to do so in the years ahead.

14 **IV. EXECUTIVE SUMMARY**

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

16 A. Generally, Black Hills Power is requesting in its application approval of the
17 following items:

- 18 1. An increase of approximately 9.94% in revenues from its South Dakota
19 customers, which is an increase in revenues of \$13,745,826;
- 20 2. Revisions and updates to certain general tariffs;
- 21 3. A new transmission facility adjustment tariff to serve as the mechanism for
22 recovery of certain future transmission facility upgrades;

- 1 4. An accounting order for vegetation management costs; and
2 5. Changes to and clarifications of its energy cost adjustment clauses.

3 The Company proposes an effective date of April 1, 2013.

4 **Q. WHAT ARE THE MAIN DRIVERS OF THIS REQUESTED RATE**
5 **INCREASE?**

6 A. The primary drivers of the requested rate increase are; 1) investments in assets to
7 replace aging infrastructure and make system improvements to continue providing
8 safe, reliable service to customers: 2) the increasing cost of compliance with
9 federal environmental regulations and compliance with North American Electric
10 Reliability Corporation (“NERC”) requirements: 3) lack of revenue growth that
11 would normally help to offset operating cost increases: and 4) increasing
12 preventative costs related to tree trimming and other vegetation management,
13 much of which is attributable to the mountain pine beetle infestation and irregular
14 weather patterns in recent years.

15 **Q. HAS BLACK HILLS POWER PREPARED A REVENUE REQUIREMENT**
16 **MODEL?**

17 A. Yes. The model included with this application is substantially the same as the
18 revenue requirement model filed in the Company’s 2009 rate case. No new
19 methodology was utilized in completing this model, and the model is consistent
20 with generally accepted utility accounting practices.

1 **Q. DID THE COMPANY ALSO PERFORM A CLASS COST OF SERVICE**
2 **STUDY?**

3 A. Yes. A class cost of service study was performed to determine the revenue
4 requirement for each class of customers. The Company used cost allocation
5 principles to allocate costs to the various classes. The results of the class cost of
6 service was used to determine rates for each of the customer classes. The
7 percentage rate increase proposed is different for each of the customer classes,
8 which results in just and reasonable rates for all Black Hills Power customers.
9 The class cost of service study is supported by the testimony of Jan Kirsch.

10 **Q. WHAT IS THE COMPANY REQUESTING IN ITS APPLICATION FOR A**
11 **RETURN ON EQUITY, RETURN ON DEBT, CAPITAL STRUCTURE**
12 **AND AUTHORIZED RATE OF RETURN?**

13 A. The Company is requesting a return on equity of 10.25%. The Company's actual
14 cost of debt is 6.59% and when these costs of capital are applied to the company's
15 actual capital structure, the resulting regulated rate of return is 8.54%. The request
16 is supported by the testimony of Dr. William Avera, the Company's cost of capital
17 consultant of Fincap, Inc., and by the testimony of the Company's Vice President
18 and Treasurer, Brian G. Iverson.

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

20 A. The Company believes that with the approval of the proposals contained in this
21 rate case application, the resulting rates will be just and reasonable and provide
22 appropriate financial stability for its utility operations. Black Hills Power

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

4 **V. BUSINESS OVERVIEW OF BLACK HILLS POWER**

5 **Q. PLEASE BRIEFLY DESCRIBE BLACK HILLS POWER'S HISTORY.**

6 A. Black Hills Power and its predecessor companies have been providing electric
7 power to the Black Hills region since 1883, when Pilcher Electric Light Company
8 was formed by early pioneers in Deadwood. Black Hills Power and Light
9 Company was formed in 1941 through the purchase and combination of several
10 existing electric utilities throughout the Black Hills. Headquartered in Rapid City,
11 today, Black Hills Power is a wholly owned subsidiary of Black Hills Corporation
12 and is a division within Black Hills Corporation's Utilities Business Segment.

13 **Q. PLEASE BRIEFLY DESCRIBE BLACK HILLS POWER'S OPERATIONS.**

14 A. Black Hills Power is a regulated electric utility engaged in the generation,
15 transmission and distribution of electricity for over 68,000 customers in western
16 South Dakota, northeastern Wyoming, and southeastern Montana with a service
17 territory of approximately 9,300 square miles. Approximately 90 percent of Black
18 Hills Power's retail electric revenues during the 12 months ended June 30, 2012
19 were generated in South Dakota.

1 **Q. IS BLACK HILLS POWER INVOLVED IN THE COMMUNITIES IT**
2 **SERVES?**

3 A. Yes, Black Hills Power has been engrained in the communities of the Black Hills
4 region since its beginnings in 1883. Today, Black Hills Power is active in
5 economic development as a community partner and has dedicated employees that
6 are active in serving the community as volunteers and board members. I provide
7 more information later in my testimony on the Company's commitment to the
8 communities and customers it serves.

9 **Q. PLEASE DESCRIBE BLACK HILLS POWER'S ELECTRIC UTILITY**
10 **PROPERTIES.**

11 A. The assets utilized by Black Hills Power to provide service to customers fall into
12 three primary classes: generation (also known as production), transmission, and
13 distribution. The Company owns 471MW of electric utility net generation
14 capacity. A description of the generation assets of Black Hills Power is provided
15 in the testimony of Black Hills Power witness Mark Lux. The Company's electric
16 system consists of approximately 570 miles of high voltage 230 kV transmission
17 lines, approximately 500 miles of lower voltage 69kV and 47kV lines, and
18 approximately 2,450 miles of distribution lines. The transmission and distribution
19 assets are described in the testimony of Michael J. Fredrich.

1 **Q. WHAT IS TYPICALLY INVOLVED IN THE OPERATION AND**
2 **MAINTENANCE OF BLACK HILLS POWER’S SYSTEM?**

3 A. Black Hills Power operates and maintains its electrical system to provide safe,
4 reliable service for our customers. Some of the primary functions included in
5 operations and maintenance are: transmission and distribution pole and line
6 inspection, substation inspection mandated by NERC, tree trimming, regulator
7 inspections, and line transformer inspections. The Black Hills Power system is
8 also analyzed from an engineering perspective for planning and system design
9 purposes to ensure that adequate system capacity is consistently planned and
10 constructed to serve customer needs.

11 **Q. PLEASE PROVIDE A DESCRIPTION OF THE RECENT HISTORY OF**
12 **THE COMPANY’S RETAIL SALES TO ITS SOUTH DAKOTA**
13 **CUSTOMERS.**

14 A. The Company’s sales to its South Dakota customers have been relatively flat for
15 the past several years. The Company’s annual South Dakota kWh sales have
16 been as follows:

17

<u>Year</u>	<u>Kilowatt Hours (kWh)</u>
2007	1,485,977,302
2008	1,466,488,375
2009	1,430,800,272
2010	1,439,011,073
2011	1,478,831,552

1 **Q. IS BLACK HILLS POWER ANTICIPATING CUSTOMER GROWTH IN**
2 **ITS SERVICE TERRITORY?**

3 A. Generally, the service territory of Black Hills Power is presently subject to low
4 customer growth rates. There were no adjustments made to the revenue
5 requirement that include customer growth.

6 **VI. OVERVIEW OF BASE RATE INCREASE REQUEST**

7 **Q. PLEASE PROVIDE AN OVERVIEW OF BLACK HILLS POWER'S**
8 **REQUEST FOR THIS RATE INCREASE.**

9 A. Black Hills Power's last base rate increase in South Dakota was effective April 1,
10 2010 and was based on Black Hills Power's September 30, 2009 application for
11 authority to increase rates. The September 2009 filing utilized a historical test
12 year of July 1, 2008 through June 30, 2009, plus known and measurable
13 adjustments to the test year. As part of the settlement stipulation approved by the
14 South Dakota Public Utilities Commission ("Commission"), Black Hills Power
15 agreed to a rate moratorium for a period of three years, until April 1, 2013. In this
16 application, Black Hills Power is requesting authority to increase its electric rates
17 to provide an additional \$13,745,826 in annual revenues from its South Dakota
18 customers, or 9.94%, based on a historical test year of July 1, 2011 through June
19 30, 2012, plus certain known and measurable adjustments to rate base and
20 operating expenses.

1 **Q. WHAT MAJOR INVESTMENTS IN TRANSMISSION AND**
2 **DISTRIBUTION ASSETS HAVE BEEN MADE BY THE COMPANY**
3 **SINCE ITS LAST RATE CASE?**

4 A. The following is a list of several of the major investments that Black Hills Power
5 has made since its last rate case: 1) Minnekahta 230/69kV substation; 2) 69 kV
6 line rebuilds; 3) transformer replacements; and 4) distribution substations. A
7 more complete description of these investments is included in the testimony of
8 Michael J. Fredrich.

9 **Q. PLEASE DESCRIBE THE INCREASING COMPLIANCE COSTS.**

10 A. Compliance costs are those costs incurred to conform to regulations of
11 governmental agencies. Increased regulation leads to increased costs, which
12 ultimately results in increased customer rates. Generally, compliance matters are
13 imposed by federal agencies, and from a cost standpoint, the two most costly
14 compliance requirements are imposed by NERC and the United States
15 Environmental Protection Agency (EPA). By way of example, the Company
16 estimates that in the test year it spent \$1,000,000 in costs related to NERC
17 compliance. The testimony of Michael J. Fredrich provides greater detail on the
18 costs of compliance with NERC requirements.

19 **Q. HOW DOES THE COMPANY'S REQUIRED COMPLIANCE WITH EPA**
20 **REGULATIONS INCREASE CUSTOMER RATES?**

21 A. As more fully described in the testimony of Mark Lux, Black Hills Power is
22 required to comply with EPA regulations, which include a series of new rules

1 issued by the EPA in 2011. The EPA issued Industrial Boiler Maximum
2 Achievable Control Technology (MACT) rules in 2011. The EPA established a
3 compliance deadline of March, 2014. These rules affect three Black Hills Power-
4 owned generating plants, all of which will need to be retired as a result of the
5 MACT rules: the Osage plant in Osage, Wyoming; the Ben French Plant in Rapid
6 City, South Dakota and the Neil Simpson I plant near Gillette, Wyoming.
7 Company witness Mark Lux describes actions being taken by Black Hills Power
8 to comply with these rules.

9 **Q. HAS THE COMPANY'S REQUIRED COMPLIANCE WITH EPA**
10 **REGULATIONS NECESSITATED GENERATION RATE BASE**
11 **ADDITIONS?**

12 A. Yes. The Company has spent or will spend by April 1, 2013, approximately \$5.2
13 million dollars in generation rate base additions because of required compliance
14 with EPA regulations. Equipment modifications include a stop valve for Neil
15 Simpson II, water treatment for the Neil Simpson Complex, a project for injecting
16 lime at Wygen III, and reciprocating internal combustion engine compliance on
17 the Ben French diesels. The testimony of Mark Lux provides additional
18 information on these generation rate base additions.

19 **Q. WHAT ARE THE GENERAL COMPONENTS OF THE PROPOSED**
20 **REVENUE INCREASE OF \$13.7 MILLION?**

21 A. Of the proposed \$13.7 million proposed revenue increase, \$11.25 million is
22 associated with increases in rate base and related depreciation expense and

1 includes Wygen III and its move into base rates rather than being included in the
2 Energy Cost Adjustment; \$1 million is related to NERC compliance; tree
3 trimming and financing costs total approximately \$0.7 million; and approximately
4 \$0.8 million is related to general inflation and other costs.

5 **Q. PLEASE SUMMARIZE SOME OF THE ACTIONS TAKEN BY THE**
6 **COMPANY TO CONTROL COSTS.**

7 A. Black Hills Power has taken a number of steps to control and reduce costs for
8 customers. The Company's generation dispatch function monitors market
9 conditions and consistently schedules the most reliable cost effective power
10 sources to serve customer needs. An example of this is the suspension of
11 operations at the Ben French generating station on September 1, 2012. With low-
12 cost economy energy purchase opportunities, Black Hills Power identified that it
13 was more cost effective to suspend operations at the Ben French plant and instead
14 purchase power in the open market on behalf of our customers. This action
15 reduces not only energy costs passed on to customers, but also reduces operating
16 costs, which have been reflected as a known and measurable adjustment to reduce
17 test year operating expenses.

18 In addition, Black Hills Power has continued to control costs by investing in new
19 technology such as Advanced Metering Infrastructure (AMI.) As further
20 described in the testimony of Michael J. Fredrich, the company installed AMI
21 meters at all customer locations in its service territory. This investment enabled
22 the Company to reduce its operating costs by eliminating twelve meter reader

1 positions, and associated vehicle operation and maintenance expenses. Other
2 examples of cost control efforts include reductions in workforce through attrition
3 in operations and customer service functions.

4 **Q. PLEASE DESCRIBE THE INCREASING COSTS RELATED TO TREE**
5 **TRIMMING AND VEGETATION MANAGEMENT.**

6 A. The testimony of Michael J. Fredrich provides the analysis of why increased
7 vegetation management is necessary. A large part of the costs of vegetation
8 management is associated with the Mountain Pine Beetle infestation. The
9 Company spent approximately \$1,400,000 on vegetation management in the test
10 year. This is an increase of 32% when compared to the vegetation management
11 cost amount set forth in the settlement of the 2009 rate case. In addition, due to
12 the extraordinary nature of the Mountain Pine Beetle infestation, the Company
13 expects to spend significantly more than \$1,400,000 annually on vegetation
14 management in the upcoming years.

15 **Q. HOW DOES THE COMPANY INTEND TO ADDRESS THE INCREASING**
16 **COSTS RELATED TO VEGETATION MANAGEMENT?**

17 A. It is necessary to spend more on vegetation management, but the Company
18 understands that its increased costs translate to an increase in customer rates.
19 Therefore, in order to mitigate the increase in rates requested herein, the Company
20 is proposing an accounting order to manage increased vegetation management
21 costs, as set forth in the testimony of Christopher J. Kilpatrick.

1 **VII. REQUESTED TRANSMISSION FACILITY ADJUSTMENT TARIFF**

2 **Q. IS BLACK HILLS POWER REQUESTING A NEW TARIFF?**

3 A. Yes. South Dakota law (SDCL 49-34A-25.1 to 25.4) provides for an automatic
4 annual adjustment of charges for jurisdictional costs of new or modified
5 transmission facilities. Therefore, Black Hills Power is requesting approval of a
6 new Transmission Facility Adjustment tariff (“TFA”) as provided by South
7 Dakota law. The testimony of Christopher J. Kilpatrick provides support for this
8 request, and the testimony of Michael J. Fredrich further describes the planning
9 and analysis completed to support the need to rebuild and improve certain
10 transmission facilities of the Company.

11 **Q. PLEASE DESCRIBE THE REASON BLACK HILLS POWER IS SEEKING**
12 **APPROVAL OF THIS NEW TFA TARIFF.**

13 A. Black Hills Power is requesting this new tariff because of the Company’s need to
14 rebuild and improve certain 69 kV transmission facilities due to the old age of
15 those facilities. Many miles of 69 kV transmission lines were constructed in the
16 1940s, 1950s and 1960s as the population grew in and around the Black Hills
17 Power service territory. Black Hills Power has identified several line segments
18 planned for reconstruction in the next several years, including the 69 kV line
19 extending from Custer to Hot Springs, South Dakota, the 69 kV line extending
20 from Osage, Wyoming to Newcastle, Wyoming, and the 69 kV line from the
21 Black Hills Power Lookout substation to Sundance Hill in Wyoming. By
22 including the costs of these system improvements in the TFA tariff, Black Hills

1 Power customers will benefit from a more gradual increase in rates as the projects
2 are completed. The testimony of Michael J. Fredrich provides additional
3 information on the Company's need to rebuild and improve certain transmission
4 and distribution lines and upcoming line rebuilds.

5 **VIII. SAFETY, SYSTEM RELIABILITY AND CUSTOMER SERVICE**

6 **Q. WHAT ARE THE KEY OPERATING PERFORMANCE OBJECTIVES OF**
7 **BLACK HILLS POWER?**

8 A. Within the Black Hills Power operations the primary focus is on three key
9 operating objectives: safety, reliability, and customer service.

10 **Q. PLEASE DESCRIBE THE COMPANY'S SAFETY EFFORTS.**

11 A. Black Hills Corporation has established an objective to be the safest energy
12 company in the industry. With that, considerable focus has been placed on safety
13 training, communication and building a culture of safety within Company
14 operations. For year-to-date 2012, Black Hills Power employees have not
15 experienced a single OSHA recordable safety incident. In fact, on October 25 of
16 this year the Company achieved 365 consecutive days of work without an
17 incident. In addition, it has been even longer since a Black Hills Power operations
18 employee has lost time away from work due to an accident. As of November 30,
19 2012, Northern Hills operations employees have gone 673 days without a lost time
20 accident, Rapid City operations employees have surpassed 1,398 days without a
21 lost time accident, and Southern Hills employees have gone nearly five years, or
22 1,801 days without a lost time accident. These numbers matter, but what matters

1 most is what they represent: our people doing the right things for the right reasons.
2 We have remained focused on safely achieving our work, taking time to consider
3 risks before beginning a task, and offering a hand to help each other so that each
4 employee goes home safely at the end of the day.

5 **Q. IS RELIABILITY OF ELECTRIC SERVICE IMPORTANT TO THE**
6 **COMPANY AND TO ITS CUSTOMERS?**

7 A. Yes. A 2011 survey of Black Hills Power customers taken by J.D. Power and
8 Associates, indicates that the most important factor in customer satisfaction is
9 power quality and reliability.

10 **Q. IS THE BLACK HILLS POWER ELECTRIC SYSTEM RELIABLE?**

11 A. Yes, the Black Hills Power electric system is very reliable. Based on 2011 data,
12 Black Hills Power customers had, on average, power available 99.98% of the time.
13 The average Black Hills Power customer experienced outages of less than 86
14 minutes in 2011.

15 **Q. PLEASE DESCRIBE HOW BLACK HILLS POWER MEASURES**
16 **RELIABILITY OF ITS DELIVERY SYSTEM?**

17 A. Black Hills Power utilizes generally accepted reliability indices, as defined by the
18 Institute of Electrical and Electronic Engineers (“IEEE”) in its standard number
19 1366-2003, “Guide for Electric Power Distribution Reliability Indices.” Generally
20 speaking, the most often used performance measurement for a sustained
21 interruption is the System Average Interruption Duration Index (“SAIDI”). SAIDI
22 measures the duration of an interruption for an “average time” customers are

1 interrupted during a given time period. Other standard measures are utilized to
2 help target expenditures for capital improvements to improve reliability measures.

3 **Q. PLEASE DESCRIBE BLACK HILLS POWER'S HISTORICAL**
4 **RELIABILITY PERFORMANCE.**

5 A. Black Hills Power participates in an annual reliability benchmarking study
6 conducted by IEEE. Over 60 utilities participate in the IEEE study, and Black
7 Hills Power consistently ranks in the top 25th percentile of the most reliable
8 utilities. The following table sets forth a summary of Black Hills Power's
9 performance relative to the IEEE benchmark survey for the years 2005 through
10 2011.

11 SAIDI Performance:

(Average annual customer outage duration in minutes)

	2005	2006	2007	2008	2009	2010	2011
Black Hills Power	57.18	73.68	50.21	57.04	69.9	76.1	85.9
IEEE Top Quartile	98.27	105.37	103.90	97.0	77.1	85.0	100.7

12 **Q. WHAT EMPHASIS DOES BLACK HILLS POWER PLACE ON**
13 **CUSTOMER SERVICE SATISFACTION LEVELS?**

14 A. Customer service has been and remains a very high priority for Black Hills
15 Corporation, and for all employees within the Black Hills Power electric utility.

16 Company and departmental goals include a customer satisfaction component.

17 We believe that our focus on customer service is reflected well in our ability to
18 maintain a high level of customer satisfaction, as demonstrated by the results of
19 surveys completed by J.D. Power and Associates. For each set of results

(conducted approximately each quarter) in 2011 and year-to-date 2012, Black Hills Power’s customer satisfaction scores have consistently exceeded the average of Midwest utilities participating in the surveys. See Exhibit RCL - 1.

Q. DOES BLACK HILLS POWER ALSO MEASURE CUSTOMER SERVICE AND SATISFACTION LEVELS IN OTHER WAYS?

A. Yes. First, internally performed customer satisfaction surveys are used as a tool to gather customer feedback on Black Hills Power’s performance. Surveys are regularly sent to: a) new customers; b) customers that receive or participate in certain services or programs (e.g., heat pumps); c) customers within the General Service – Large customer class; and d) industrial contract customers. For 2011, 97 percent of all survey responses reflected a positive view of Black Hills Power. A positive indicator is considered to be a response of Good, Very Good, or Excellent. A second important indicator of customer satisfaction is the number of formal complaints filed with this Commission and the number of contacts made with Commission staff. Set forth below is a summary of customer contacts and formal complaints made to this Commission for the years 2007 through 2011 and year-to-date June 30, 2012. The relatively higher number of contacts in 2010 and 2011 is readily explained by the Company’s rate case, filed in late 2009, and year-to-date 2012 contacts have returned to a more typical level.

	South Dakota Public Utilities Commission Customer Contacts and Formal Complaints					
	2007	2008	2009	2010	2011	2012 YTD
BHP Contacts	65	47	25	236	106	46
Formal Complaints	0	1	0	0	0	1

1 Given the scope of our utility operations, and the reliance of our customers on our
2 services, we believe the low number of Commission contacts and formal
3 Commission complaints speak well of Black Hills Power's focus on customer
4 service. Finally, in 2009 and again in 2011 the Company enlisted Eidex Group to
5 conduct a survey of public officials to further assess the Company's performance.
6 Surveys were mailed by Eidex Group to several hundred community leaders in the
7 Black Hills area, and survey responses rated Black Hills Power on a variety of
8 categories, including the community's relationship with the company,
9 environmental responsibility, communication, involvement in civic affairs and
10 community support, and our performance as a residential and commercial service
11 provider. The overall community satisfaction with Black Hills Power in 2011 was
12 88%. Even with the public attention paid to the Company's 2010 rate increase, the
13 2011 satisfaction percentage was an increase of 5% over the 2009 survey results.

14 **Q. HOW DOES BLACK HILLS POWER DEMONSTRATE ITS**
15 **COMMITMENT TO THE COMMUNITIES AND CUSTOMERS IT**
16 **SERVES?**

17 A. As a community partner, Black Hills Power remains active in numerous civic and
18 community events through economic development initiatives and the involvement
19 of its dedicated employees. Black Hills Power has been involved in a broad range
20 of projects to improve its local communities, including active involvement in local
21 United Way campaigns, Power of Trees tree planting programs, and many other

1 community initiatives across our service territory. In 2012, Black Hills Power
2 began a new program called Black Hills Cares designed to provide funds for
3 customers in need of energy assistance, and the program has been very successful.

4 **Q. PLEASE SUMMARIZE THE COMPANY'S RESULTS REGARDING**
5 **RELIABILITY AND CUSTOMER SERVICE.**

6 A. Customers want, first and foremost, reliable electric service, and the Black Hills
7 Power system delivers reliable electric service to its customers. Customers want,
8 and the Company delivers, excellent customer service as shown by the surveys
9 referenced above.

10 **IX. STRATEGIC WORKFORCE PLANNING**

11 **Q. PLEASE DESCRIBE THE STRATEGIC WORKFORCE PLANNING**
12 **PROCESS.**

13 A. Approximately 25.5% of Black Hills Power's operations workforce is age 55 or
14 older. Therefore, a significant portion of the employees of Black Hills Power
15 utility operations could retire over the next 5-7 years. As of 2008, 53% of the
16 utilities workforce nationwide was age 45 or older. With over 50% of the national
17 utility workforce eligible to retire within the next decade, many utilities will be
18 competing for the same qualified candidate pool to replace retiring workers. Black
19 Hills Corporation and Black Hills Power are taking actions to improve current
20 employee retention and to offer attractive training and development opportunities
21 to new employees. Black Hills Corporation is implementing a strategic workforce

1 planning process in order to proactively address these challenges, which will allow
2 the Company to stay competitive in the talent market.

3 **Q. WHAT IS BLACK HILLS CORPORATION'S GENERAL STRATEGIC**
4 **WORKFORCE PHILOSOPHY?**

5 A. Black Hills Corporation's workforce philosophy is designed to help the various
6 business units of the Company, including Black Hills Power, develop well
7 positioned human resource solutions to ensure that business units have the right
8 human resource talent in the right places at the right times.

9 **Q. PLEASE DESCRIBE THE STRATEGIC WORKFORCE PLANNING**
10 **PROCESS.**

11 A. Black Hills Corporation's strategic workforce planning process includes an
12 examination of the current workforce demographics, projection of potential losses
13 due to employee retirement over the next five (5) years, and a thorough discussion
14 of the skills and knowledge that will be needed to continue to deliver safe,
15 reliable service to our customers. Through this process, Black Hills Corporation
16 will be able to identify areas of risk due to shortage of workers, lack of qualified
17 employees possessing required skills and abilities, or both. Once these human
18 resource risks are identified, business unit leaders are able to develop an action
19 plan to address the risks.

1 **Q. HOW DOES BLACK HILLS POWER'S STRATEGIC WORKFORCE**
2 **PLANNING INITIATIVE AFFECT THIS RATE CASE?**

3 A. Black Hills Power is seeking to add and has now hired one additional line
4 mechanic position due to retirement risk and additional business needs. This
5 additional position is critical to provide this new employee the opportunity to work
6 closely with an experienced incumbent prior to the expected retirement of that
7 person. That training model will allow for valuable knowledge transfer,
8 supervised skill development and sufficient employee training.

9 **X. DEMAND SIDE MANAGEMENT ACTIVITIES**

10 **Q. HAS BLACK HILLS POWER ACTIVELY PROMOTED ENERGY**
11 **EFFICIENCY AND DEMAND SIDE MANAGEMENT PROGRAMS?**

12 A. Yes. Black Hills Power has consistently promoted energy efficiency through
13 various programs, including rate design and customer rebate programs, since the
14 mid-1990s. In January 2011, Black Hills Power proposed to expand those
15 programs, and its application was approved by this Commission by its Order in
16 Docket No.EL11-002 on July 7, 2011. Our new Energy Efficiency Solutions
17 (EES) programs were implemented on September 1, 2011 and a report
18 summarizing first year results of the EES programs was filed with the Commission
19 on December 3, 2012.

1 **XI. INTRODUCTION OF WITNESSES**

2 **Q. PLEASE INTRODUCE BLACK HILLS POWER’S OTHER WITNESSES**
3 **IN THIS PROCEEDING.**

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

6 **Glynda O. Rahn**, Operations Manager for the Rapid City District of Black Hills
7 Power: Ms. Rahn will discuss certain revisions and updates to the Company’s
8 tariffs, rules and regulations.

9 **Michael J. Fredrich**, Director of Engineering Services: Mr. Fredrich will discuss
10 the Company’s expenditures on capital improvements and will provide
11 information on vegetation management.

12 **Christopher J. Kilpatrick**, the Director of Resource Planning and Rates: Mr.
13 Kilpatrick supports and explains the Company’s revenue requirement model,
14 provides support and explains the request for an accounting order regarding
15 vegetation management, describes changes to the energy cost adjustment tariffs,
16 and supports and explains the new Transmission Facility Adjustment tariff.

17 **Erin E. Wentz**, Manager of Electric Rates: Ms. Wentz will present and explain
18 adjustments made to the revenue requirement model, discusses the test year rate
19 base and income statement, and describes the appropriate adjustments to the test
20 year rate base, revenues and operating expenses, including any known and
21 measurable or contracted adjustments.

1 **Laura A. Patterson**, Director of Compensation, Benefits and Human Resources
2 Information Systems: Ms. Patterson provides support for the Company’s
3 compensation philosophy.

4 **Jeff Berzina**, Vice President and Corporate Controller: Mr. Berzina certifies the
5 books and records of the Company, discusses the agreements between the
6 Company and other affiliates of Black Hills Corporation, and describes how costs
7 are allocated by those affiliates.

8 **Jan Kirsch**, Senior Rate Analyst: Ms. Kirsch will describe the class cost of
9 service allocations and how those allocations are used in determining rates.

10 **Mark Lux**, Vice President and General Manager, Regulated and Non-Regulated
11 Generation: Mr. Lux identifies the generation assets of Black Hills Power,
12 addresses environmental laws and regulations that are impacting the Company’s
13 operational decisions regarding its small coal-fired generating units, and explains
14 anticipated plant closures and economic shut downs of generating units.

15 **Brian G. Iverson**, Vice President and Treasurer: Mr. Iverson discusses the
16 corporate finance philosophy of Black Hills Power, explains the proposed capital
17 structure, long term debt and the cost of equity, and the cost of debt, supports the
18 weighted average cost of capital, and identifies the Company’s requested return on
19 equity.

20 **Dr. William E. Avera**, President of FINCAP, Inc.: Dr. Avera presents his
21 independent assessment of the fair and reasonable rate of return on equity for the
22 Company and the Company’s requested capital structure.

1 **Kyle D. White**, Vice President of Regulatory Affairs: Mr. White provides
2 additional support for the key components of the rate application presented by the
3 Company, will review certain Statement R pricing, and reviews the phase in plan
4 that the Company intends to file.

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 **A. Yes, it does.**