Black Hills Corporation

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Mr. Christopher Petrie, Chief Counsel
Wyoming Public Service Commission
2515 Warren Avenue, Suite 300
Cheyenne, WY 82002

Subject: Cheyenne Light, Fuel & Power Company and Black Hills Power, Inc.
Cheyenne Prairie Generating Station
Section 109 Wyoming Industrial Siting Permit

Dear Mr. Petrie:

Cheyenne Light, Fuel & Power Company (CLFP) and Black Hills Power, Inc. (BHP) have begun the regulatory process to construct the Cheyenne Prairie Generating Station (CPGS, the Project). When completed, the natural gas-fired-electric generating station will serve customers in Wyoming and South Dakota.

The purpose of this letter is to notify all relevant State of Wyoming agencies of the Project and invite their input and involvement. The Project team met with the State Engineer's Office on December 8, 2011. Meetings will be requested with the State Historic Preservation Officer (SHPO), the Wyoming Game and Fish Department, and Wyoming Department of Transportation to ensure that their concerns are identified and addressed. CLFP and BHP have met with the U.S. Fish and Wildlife Service to discuss construction activities and avoidance measures that will be used to minimize Project impacts to the maximum extent practicable. An information handout on the Project is shown as Attachment 2.

CLFP and BHP propose to jointly own, construct, and operate the Project located on private lands in the City of Cheyenne. The Project will include engineering, procurement, and construction of all equipment and facilities necessary for a fully operational gas-fired electrical generating facility.

Industrial Siting Act Statute and Cost

A meeting was held with the Wyoming Department of Environmental Quality Industrial Siting Division (ISD) on December 8, 2011, in which the ISD staff determined that the estimated capital cost of construction for the Project meets or exceeds the current statutory jurisdictional capital construction cost threshold of $186.7 million (W.S. § 35-12-102).

Location

The Project site is located in Laramie County, Wyoming, approximately 5 miles east of downtown Cheyenne, but still within the city limits. The facility would sit on approximately 30 acres within a 250-acre parcel. The parcel is adjacent to and south of I-80, situated just west of

the Dry Creek Wastewater Treatment Plant. Elevation throughout the Project area is approximately 5,950 feet above mean sea level. Approximately 1.8 miles of 115-kilovolt (kV) transmission line will be installed to connect the facility to the grid at a point east of the facility. A project location map is shown in Attachment 1.

Land Use

The Project site will be located on private lands in Laramie County. The Project site is undeveloped and zoning for industrial use has been approved by City Council. There is an existing transmission line along the north end of the parcel, adjacent to Interstate 80.

Components

The primary components of the Project are gas-fired combustion turbine generators, one operating alone in simple cycle, and two operating in combined cycle. Additional infrastructure will include inlet air heaters, fuel gas heaters, a wet cooling tower, diesel generator and diesel-driven fire pump. The facility will be served by a natural gas pipeline originating near the southern border of Wyoming and an electric transmission line approximately 2 miles in length. A portion of the facility's footprint will contain a substation used to interconnect with the CLFP electrical system.

Project Schedule

Permitting is currently underway for the project. The Prevention of Significant Deterioration (PSD) Greenhouse Gas air construction permit application was submitted to EPA in August 2011 and the PSD air construction permit application was submitted to WDEQ in October 2011. Currently the plan is to submit the Industrial Siting Act (ISA) permit application in mid-April 2012 with a public hearing scheduled for July 2012. Major equipment is expected to be ordered in the third quarter of 2012. CLFP and BHP anticipate an approximately 14-month construction period commencing in the second quarter of 2013. Commercial operation of the facility is anticipated for summer 2014.

It is expected that the Facility will begin commercial operation in the summer of 2014. During the summer of 2013, it is anticipated that construction activities will consist of equipment mobilization; preliminary site work including clearing, leveling, and grading work; excavation; substructures and piping; and foundation work including erection of foundations and steel structures. Major construction activities will commence in third quarter 2013, including mechanical and electrical work, and construction of combustion turbine generators, air quality control system and major auxiliary equipment.

Construction and Operations Workforce Requirements

Construction Workforce

Site preparation and clearing would begin in the second quarter of 2013. Construction activities and the corresponding workforce will ramp-up over the following several months. The construction workforce is expected to peak at 400 during the height of construction activities in the winter of 2013.

Operations Workforce

During the operations phase, an estimated permanent workforce of 10 to12 full-time positions will be needed by the Project.

Transportation

Workforce and delivery vehicles are expected to primarily use Interstate 80 and Campstool Road to reach the Project location. An existing gravel road parallels the highway near the existing transmission lines. That dirt road would be improved between Campstool Road and HR Ranch Road to the west. A new access road will connect this improved road to the Project site to the south. All deliveries will be trucked directly to the Project site.

Water Use

The Project is estimated to use less that 100 acre-feet per year because the plant will provide peak and intermittent service, primarily during the summer. The water balance for the Project estimates a maximum annual water use of 786 acre-feet/year. This figure was calculated assuming the plant is running at 100 percent load. The primary water requirement will be associated with the cooling tower. The water use estimate is conservative and represents the highest water use scenario.

Water sources for the operating plant will be a combination of treated waste water effluent from the neighboring Dry Creek Waste Water Treatment Plant (WWTP) and potable water from the Board of Public Utilities (BOPU). Over 80 percent of the plant's operational water needs will be met by the treated waste water effluent; the remainder will be potable water. The WWTP effluent flow is approximately 5,585 acre-feet per year; therefore, the plant is expected to consume less than two percent of the available WWTP effluent. Waste water from the Project will be returned to the WWTP.

Public Involvement Activities

Through numerous informational meetings and presentations, CLFP and BHP representatives have actively sought out potentially affected municipalities, counties, state agencies, and other stakeholders to discuss potential environmental, social, and economic issues and identify mitigation recommendations and solutions to incorporate into the planning and design of the Project. The Project area of study, as identified by ISD staff during the Jurisdictional Meeting, determined the local governments where informational meetings were held.

CLFP and BHP will have met with elected government officials in Laramie, Albany, Platte, and Goshen Counties as part of the pre-application filing process to inform them of the Project, receive comments and input, and address concerns.

CLFP and BHP held two public open house meetings to ensure the public had the opportunity to discuss the project and ensure any concerns were identified and addressed. The meetings were held in Cheyenne on January 25 and February 18, 2012.

Socioeconomic Impacts

A detailed analysis of social and economic impacts will be submitted as part of the ISA permit application to evaluate the benefits and impacts to the social and economic resources in the area of study and primary area of site influence. To measure potential impacts, the socioeconomic analysis will compare the expected future conditions in the area of study with and without the Project. The counties included in the area of study were determined in consultation with ISD staff and has been defined as Laramie, Albany, Platte, and Goshen Counties.

Both local communities and the state will realize benefits from the Project. Wyoming will gain economic benefits including permanent job creation, and tax revenues. Locally, the Project may result in allocation and distribution of impact assistance payment funds, local spending on goods and services, additional local economic activity, and tax revenues. Additionally, locally-generated electricity will provide the opportunity for residential and commercial development in the service area.

Construction of the Project is expected to place minimal demands on water, sewer, roads, electrical lines, or other local infrastructure. Therefore, construction and operation of the Project is not expected to significantly affect the various public and nonpublic facilities and municipal services as a result of in-migration of workers for non-basic employment opportunities.

Environmental Resources

CLFP and BHP have reviewed existing data and conducted cultural resource inventories and threatened and endangered species habitat evaluations. Noise analyses will be completed to document and characterize baseline conditions of the Project area and estimated Project impacts. All baseline resource information will be used to design Project components to avoid or minimize the potential for environmental and natural resource impacts.

A Class III Cultural Resource Inventory was completed for the entire 250-acre parcel in which the Project will sit. No cultural resource sites eligible for listing on the National Register of Historic Places were identified. A supplemental Class III Inventory will be completed on the access road, transmission interconnect, and other facilities outside the parcel as the locations of those facilities become finalized.

Invitation to Participate

CLFP and BHP invite you to express your agency's comments and provide feedback so that issues may be considered and addressed directly with your agency, as well as incorporated directly into the ISA permitting application and construction planning process.

You may provide input by sending an e-mail to Mark.Stege@blackhillscorp.com, or by faxing your comments to us at (307) 778-2106. Please be sure to include your name and contact info with your comments so that we may follow-up with you effectively. Likewise, if you prefer to discuss the Project further, CLFP and BHP are available to meet in person or via phone upon your request.

We look forward to working with you on this Project, and look forward to your input.

Sincerely,

Mark Stege
Vice President, Operations
Cheyenne Light Fuel & Power Company

Attachments: 1) Project Location Map
2) Project information Handout

Black Hills Corporation
Improving life with energy

Cheyenne Prairie Generating Station

Project Description

Black Hills Corporation (BHC) plans to construct a new nominal 132 megawatt (MW) net simple and combined cycle natural gas fired combustion turbine power plant in Laramie County, Wyoming. Pending approval by the Wyoming Public Service Commission, the project, named the Cheyenne Prairie Generating Station (CPGS), will be located within the city limits of the City of Cheyenne, Wyoming, approximately 5 miles southeast of the downtown area on a 250 acre parcel owned by BHC. BHC subsidiaries Cheyenne Light Fuel and Power Company (CLFP) and Black Hills Power (BHP) will jointly own and operate the facility. The 37 MW net Simple Cycle Combustion Turbine will be 100% owned by CLFP. The 95 MW net Combined Cycle will be 42% CLFP and 58% BHP. The purpose of the proposed facility is to 1) meet capacity requirements per the Integrated Resource Plan, 2) allow reserve generation for economy purchases, 3) locate generation in the service area for reliability, 4) provide a source of peaking and intermediate generation and 5) enable renewable generation.

The CPGS project will include three General Electric (GE) LM 6000 PF SPRINT combustion turbine generators (CTGs) fired by pipeline quality natural gas. Two of the turbines will be operated in combined cycle mode and one will be operated in simple cycle mode. The combustion turbines will use best available control technology including low-NOx burners, Selective Catalytic Reduction for further Nitrogen Oxides (NOx) removal and an Oxidation Catalyst for removal of Carbon Monoxide (CO) and Volatile Organic Compounds (VOCs).

The estimated cost of the facility is $237 million including the generation facility, natural gas pipeline and transmission interconnect.

Schedule

Permitting is currently underway for the project. Major equipment would be ordered in October 2012, construction would start in April 2013 and commercial operation would commence in June 2014.

Construction and Operations Workforce

Construction at the site is expected to start in April 2013. The average construction workforce is estimated at 194 for the 14-month construction duration. The peak is estimated at 400 on-site workers in December 2013. The Operations and Maintenance Workforce for the new facility is estimated to be 10 to 12 full time permanent positions.

Community Benefits

The construction of the new generation facility will provide investment in the local community, employment, expanded tax base and clean electric power. There will be significant capital expenditures on local purchases. There will be new jobs for both construction and long-term operation. The project will result in additional property, ad valorem, severance and other taxes paid by the project.

Environment

Major environmental permits required for the project include:

- Wyoming Industrial Siting permit
- Prevention of Significant Deterioration (PSD) Air Construction permit
- Greenhouse Gas PSD Construction permit
- Title IV Acid Rain permit
- Title V Operating permit
- Construction Stormwater Discharge permit
- National Pollutant Discharge Elimination System (NPDES) Stormwater Discharge Permit
- Industrial Water Discharge Pre-Treatment Permit with Regional Wastewater Plant
- Spill Prevention, Control and Countermeasure (SPCC) Plan
- Other permits related to siting of Electric Transmission and Natural Gas Pipeline

Industrial Siting Permit Application - Black Hills Corporation is required to obtain an Industrial Siting Permit from the Wyoming Department of Environmental Quality, Industrial Siting Division (ISD) due to the source category and overall capital cost of the project. The application is expected to be filed in April 2012.

Water - A water supply analysis for the project was recently completed. The City of Cheyenne will supply water to the new facility. The facility is also going to use treated wastewater from the neighboring regional wastewater facility to reduce fresh water makeup. The facility will also discharge all wastewater to the regional wastewater facility. There will not be a discharge permit to Crow Creek or other surface waters.

Air - The air construction permit application was submitted to the Wyoming Department of Environmental Quality, Air Quality Division in October 2011. A Greenhouse Gas permit application was submitted to EPA Region 8 in August 2011.

For more information, contact:

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