

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE JOINT)
APPLICATION OF CHEYENNE LIGHT, FUEL)
AND POWER COMPANY AND BLACK HILLS)
POWER, INC., FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
FOR CONSTRUCTION, OPERATION AND)
MAINTENANCE OF A GAS-FIRED ELECTRIC)
GENERATING POWER PLANT AND)
RELATED FACILITIES)

Docket No. 20002-81-EA-11
Docket No. 20003-113-EA-11
(Record No. 13007)

APPEARANCES

For the Joint Applicants Cheyenne, Light, Fuel and Power Company (CLFP)
and Black Hills Power, Inc. (BHP) (collectively, the Applicants):
LEE A. MAGNUSON, Attorney at Law, Sioux Falls, South Dakota.
JOHN A. SUNDAHL, Attorney at Law, Cheyenne, Wyoming.

For the Intervenor Office of Consumer Advocate (OCA):
IVAN H. WILLIAMS, Senior Counsel, Cheyenne, Wyoming.

Pro se Public Commenter:
DONN EDMUNDS, Cheyenne, Wyoming

HEARD BEFORE

Chairman ALAN B. MINIER
Deputy Chairman STEVE OXLEY
Commissioner KATHLEEN A. "CINDY" LEWIS

J. BLAIR BALES, Assistant Secretary,
Presiding pursuant to a *Special Order* of the Commission

Hearing Held July 31, 2012

MEMORANDUM OPINION, FINDINGS AND ORDER GRANTING
APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY
(Issued January 8, 2012)

This matter is before the Wyoming Public Service Commission (Commission) upon the joint application (Application) of the Applicants seeking a certificate of public convenience and necessity (CPCN) for the construction, operation and maintenance of a gas-fired electric generating plant providing a total of 132 MW, a high pressure gas line, a transmission line, and ancillary common capital assets (collectively known as the Facility); the intervention of OCA; and the *Stipulation and Agreement (Stipulation)* between Applicants and OCA.

The Commission, having reviewed the Application, attached exhibits, and the evidence adduced at the public hearing, its files regarding the Applicants, applicable Wyoming utility law, the public comments in this case, and otherwise being fully advised in the premises, FINDS and CONCLUDES:

Introduction

1. On November 1, 2011, CLFP and BHP filed their Application with the Commission. CLFP provides public utility service to approximately 39,000 electric customers and 35,000 natural gas customers in a 1,200 square mile service area in and near Cheyenne, Wyoming. (Ex. 6, p. 2.) CLFP is a Wyoming corporation, and is duly authorized to engage in business in the State of Wyoming. (Ex. 1, p. 1; and see *Stipulated Summary of Uncontroverted Facts*.) BHP provides electric service to approximately 68,000 electric customers in a 9,300 square mile area covering western South Dakota, northeastern Wyoming, and southeastern Montana. (Ex. 7, p. 3.) BHP is a South Dakota corporation, and is duly authorized to engage in business in the State of Wyoming. (Ex. 1, p. 1; and see *Stipulated Summary of Uncontroverted Facts*.) Applicants are public utilities as defined in W.S. § 37-1-101(a)(vi)(C), subject to the jurisdiction of the Commission under W.S. § 37-2-112.

2. The Application seeks an *Order* from the Commission granting a CPCN authorizing the construction, operation, and maintenance of the Facility, which will be located about five miles east of downtown Cheyenne. (Transcript of July 31, 2012, public hearing, hereinafter, Tr., pp. 21, 30.) CLFP and BHP supported the Application with the written testimony of Mark Stege (Ex. 6), Richard C. Loomis (Ex. 7), Kyle White (Exs. 8 through 10), Jill Tietjen (Exs. 11 and 12), Diane Crockett (Ex. 13), Eric Scherr (Exs. 14 through 16), Fred Carl (Ex. 17), Dr. Robert Pearson (Exs. 18 and 19), Mark Lux (Exs. 20 through 29), Eric Egge (Exs. 30 through 32), and Brian Iverson (Exs. 33 through 35).

3. On November 3, 2011, pursuant to W.S. § 37-4-402(a)(i), the OCA intervened in the case. The OCA is an independent division within the Commission, charged by statute with representing the interests of Wyoming citizens and all classes of utility customers in matters involving public utilities. (*Stipulated Facts*, ¶ 10.)

4. On November 22, 2011, the Commission issued its *Notice of Application* containing a deadline of December 22, 2011, for requests for intervention. The notice was duly published and broadcast on radio. (Ex. 200.)

5. On January 4, 2012, the Commission issued its *Scheduling Order* setting a procedural schedule and a public hearing commencing on July 31, 2012. (*Id.*)

6. On May 21, 2012, the OCA filed the direct testimony of Bryce J. Freeman. (Exs. 201 and 201.1.)

7. On June 18, 2012, the Applicants filed rebuttal testimony of Eric Scherr (Exs. 38 and 39) and Kyle D. White. (Exs. 40 and 41.)

8. On July 12, 2012, the Commission issued a *Notice and Order Setting Public Hearing*, which was duly published and broadcast on radio. (Ex. 200.)

9. On July 13, 2012, CLFP, BHP and OCA (collectively the Parties) filed their *Stipulation* with the Commission. (Joint Ex. 300.) On July 18, 2012, the Applicants filed written testimony from White (Ex. 42) and Kilpatrick (Ex. 43) supporting the *Stipulation*. On July 19, 2012, OCA filed written testimony from Freeman supporting the *Stipulation*. (Ex. 202.)

10. Pursuant to the orders of the Commission and due notice, the public hearing in this matter was held on July 31, 2012, in Cheyenne. At the end of the hearing, the Commission held public deliberations pursuant to W.S. § 16-4-403, and directed the preparation of an order consistent with its decision.

Summary of Decision

11. The Commission approves the Applicants' request for a CPCN for the Facility, and approves the *Stipulation*. The Commission also directs the Applicants to file Integrated Resource Plans consistent with Commission Rule 253, and to file Energy Facility Plans (EFPs) filed with the South Dakota Public Service Commission.

Contentions of the Parties and Resulting Issues

12. In direct testimony, OCA objected to issuance of the CPCN solely on the grounds that the Applicants had failed to conduct a comprehensive review of their needs, and failed to investigate viable alternatives to the Facility.

13. As a result of the *Stipulation*, the Parties agreed there were no remaining issues of fact or law for determination by the Commission.

14. The Commission will address the following issues: [i] should the Commission approve the Application for a Certificate of Public Convenience and Necessity; and [ii] should the Commission approve the *Stipulation*?

Findings of Fact

15. "No public utility shall begin construction of a line, plant or system. . . .without first having obtained from the commission a certificate that the present or future public convenience and necessity require or will require such construction. . . ." W.S. § 37-2-205(a). "The commission shall have power, after hearing involving the financial ability and good faith of the applicant and the necessity of additional service in the community, to issue said certificate, as prayed for, or to refuse to issue the same . . ." W.S. § 37-2-205(c). Where, as in the referenced statute, the evidentiary standard is not specifically stated, the public utility's burden of proof must be met by "the preponderance of the evidence standard customarily used in civil cases." *Willadsen v. Christopulos*, 1987 WY 5 at ¶13, 731 P.2d 1181, 1184 (Wyo. 1987).

16. Commission Rules direct applicants to file information that enables the Commission to consistently apply the broad statutory tests. The Rules are layered, so that the most comprehensive requirements apply to electric generation plants. Commission Rule §§ 204, 205, and 206. Applications for electric generation plants are commonly supported, as in this case, by pre-filed testimony, exhibits and confidential financial data. CLFP and BHP organized the Application to follow the subsections of the Rules. (Tr., p. 28; Ex. 1.) A complex initial filing facilitates review by both intervenors and Commission staff.

17. We find the Commission's filing requirements have been fully and fairly satisfied by a combination of the Application with its supporting testimony and exhibits, the rebuttal testimony and exhibits of the Applicants, the *Stipulation* testimony and exhibits of the Applicants and OCA, and the hearing testimony. In this regard, we note that a substantial portion of the hearing was devoted to review and elaboration of the Applicants' responses to specific subsections of the Commission Rules. (*See, e.g., Tr., pp. 28-34.*)

18. The only intervenor in this case was the OCA, which reached a pre-hearing agreement with the Applicants about the disposition of the case. Generally speaking, the agreement provided for approval of the Application with certain conditions.

19. When the parties to a contested case proceeding reach a settlement, the Commission holds a public hearing to determine whether the settlement is in the public interest. *See, infra*, ¶¶ 45, 50, 71, 75. In such proceedings, we seek to understand the terms of the settlement, and assure that it is consistent with the standards for approving the application. We inquire into the motivations of the parties to assure that some aspect of the settlement has not, by inattention or design, done a disservice to all or a subset of the utility's ratepayers. We consider whether the settlement provides value for ratepayers that may not otherwise be available. To place the settlement into context, we ensure that the original direct cases of the applicants and the intervenors are fully examined on the record, including any issues the Commission may identify but which the parties may not have raised or sufficiently developed. Finally, we conduct such other examination as the public interest may require.

20. Between August 1, 2011, and November 1, 2011, the Applicants changed their position about the facilities they require. This unusual circumstance bears on both: [i] the necessity for the requested service; and [ii] an element of the proposed settlement. We accordingly shall begin with how the Applicants' position evolved.

21. The Applicants now propose to install a Facility with five elements: [i] a 37 MW natural gas-fired combustion turbine generator (CTG); [ii] a 95 MW natural gas fired combined cycle unit (CC) that includes two combustion turbine generators, two heat recovery steam generators, and one steam turbine; [iii] a gas supply line; [iv] a transmission connection with CLFP's existing 115 kV transmission system; and [v] miscellaneous common capital assets such as land, buildings, and a substation. The combined cycle unit will be owned jointly by CLFP (42%) and BHP (58%). The Common Capital Assets will be jointly owned by CLFP (58%) and BHP (42%). The remaining assets will be owned solely by CLFP. (Ex. 1, pp. 8-9; Tr., p. 21.)

22. The functional purpose of the Facility is to provide intermediate generation capacity to the joint owners through the CC, and peaking generation capacity to CLFP through the CTG. (Ex. 1, pp. 50-51.) Base load generation for CLFP and BHP is already provided by the Wygen I and Wygen II plants located near Gillette, Wyoming. (*Id.*) The Applicants anticipate that, at peak times, generation will be shared on a displacement basis to eliminate the “need for a direct transmission path between the two utilities’ service areas” thus avoiding unnecessary transmission. (Tr., pp. 48-49, 82-83.)

23. Broadly stated, CLFP needs the Facility to address the August 2014 expiration of a power purchase agreement for peaking capacity, and to address unusually high load growth in the Cheyenne area. (Tr., p. 22; OCA does not contest these growth estimates: Ex. 200, pp. 8-10; Tr., p. 124.) BHP needs the Facility because certain existing coal fired plants will be retired. These coal plants are owned and operated by Black Hills Corporation and its affiliates. Black Hills Corporation is also the common parent corporation of the Applicants. Black Hills Corporation has determined it will be uneconomic to retrofit these plants to comply with Environmental Protection Agency rules taking effect in March 2014. (Tr., p. 22.) As context for the different needs of BHP and CLFP, the large majority of BHP customers are located in South Dakota (Confidential Ex. 16, p. ES-2), while all CLFP customers are located in Laramie County, Wyoming. (Confidential Ex. 15, p. ES-2.)

24. In late 2010, CLFP began to prepare an Integrated Resource Plan (IRP) (Confidential Ex. 15) to assess the full range of demand and supply side options to meet its needs. (Ex. 38, p. 2.) When completed in June 2011, the IRP identified a preferred plan that included the addition of three combustion turbine generators in 2014. (*Id.*) On August 1, 2011, CLFP applied for a CPCN to construct three CTGs at a site in Cheyenne. (*Id.*)

25. For what follows, it is helpful to know the CLFP IRP and the later BHP IRP were both prepared with the use of centralized administrative and regulatory support from their parent, Black Hills Corporation. (Ex. 40, pp. 19-20.)

26. BHP began work on an IRP (Confidential Ex. 16) in mid-2011 when the need to retire existing coal facilities in 2014 became apparent. (Ex. 38, p. 3.) Modeling completed in July 2011 identified a preferred plan that included conversion of a CTG to combined cycle operation in 2014. (*Id.*) Those preparing the IRP assumed that the converted CTG would be a facility already located in Gillette, Wyoming. (Ex. 40, p. 14.) However, once the conversion option had been selected, BHP began to consider a combined cycle unit in Cheyenne, which had fewer water and gas supply issues than Gillette.¹ (Ex. 40, pp. 11, 15.) The BHP IRP model was adapted to allow for this possibility, and that model then identified the CC conversion in Cheyenne as optimal. (*Id.*) At this point, those preparing the IRP on behalf of the Applicants began to consider whether a CC unit located in Cheyenne could satisfy the needs of both CLFP and BHP. (*Id.*)

¹ Eighty percent of the Facility process water will be from the City of Cheyenne’s wastewater treatment plant. (Tr., p. 32.) Several natural gas pipelines make Cheyenne a natural gas hub, providing an array of options for acquiring gas. (Tr., p. 72.)

27. As part of a more detailed investigation, the Applicants performed further capacity expansion and production cost modeling for both CLFP and BHP, confirming the preference for a CC unit in 2014. (Ex. 40, p. 16.) They then undertook a risk analysis that examined resource mix benefits, operational and environmental benefits, and market benefits. (Ex. 40, p. 16; Ex. 1, pp. 48-51.) They considered operational factors, including joint operations:

[A] CC unit operates at a lower [hence preferred] heat rate than a CTG but only when it runs at near full capacity. Because Black Hills Power and Cheyenne Light share a similar coincident peak, weather patterns, and load requirements, it is likely that these utilities will need to call on the unit at the same time. The combined need of the two utilities will allow the CC unit to operate at a capacity sufficient to achieve a low heat rate resulting in more economic energy for customers.

(Ex. 1, p. 51; Ex. 40, p. 16.) On reaching the conclusion that significant benefits accrued to CLFP and BHP from building a jointly-owned CC unit, CLFP withdrew its pending request for approval of three CTGs; and CLFP and BHP filed the joint application we now consider. (Ex. 40, p. 17.)

28. Before filing the revised Application, the Applicants completed further analysis to assure that the new proposal would result in the least cost, least risk alternative for them. (Ex. 40, p. 17.) At this stage, the Applicants considered purchasing existing generation, entering into new power purchase agreements, and constructing new generation. (*Id.*) They applied their knowledge of resources available from regional energy markets. (Ex. 40, pp. 7-8.) They determined that natural gas-fired generation within Wyoming and Colorado available over the next seven years was not suitable for the needs of CLFP and BHP and would not provide the full range of benefits of the proposed Facility. (Ex. 40, p. 9.) Details of the analysis of the Colorado generation were provided to the Commission in a confidential exhibit. (Confidential Ex. 41.)

29. The last round of analysis yielded a determination to proceed with utility-owned generation. (Ex. 40, p. 17.) The applicants support this decision by reference to operational benefits (*Id.*, pp. 17-18), financial benefits (*Id.*, p. 18), and the customer benefits that typically occur over time as the result of depreciation and a declining rate base. (*Id.*, pp. 18-19.) The Applicants also noted that utility-owned generation normally does not require ratepayers to bear the risk premium incorporated into engineering, procurement, and construction contracts. (Ex. 40, pp. 12-13.) In apparent support of the Applicants' conclusions, OCA acknowledged that Black Hills Corporation has a remarkably good track record of constructing plants and bringing them into commercial service on time and within budget. (Ex. 200, pp. 19-20.)

30. Other judgments were involved in reaching a final decision. For example, CLFP determined that it would purchase no more than 50 MW from the market. (Ex. 40, p. 6.) It did so because CLFP, prior to being owned by Black Hills Corporation, was forced to buy power in a market at highly inflated prices, with severe rate shock to its customers. (*Id.*) We find CLFP's preference to reduce customer risk through a balanced portfolio of supply and demand side resources to be reasonable. (Tr., pp. 42-43.) CLFP also chose a 15% reserve margin (Ex. 11, pp. 5-6; Tr., p. 22), which we find to be reasonable.

31. Once a decision was made on the appropriate Facility, the Applicants could move on to matters of cost, financing, and construction scheduling. Before moving to these topics, we note that the IRPs of the Applicants have been filed in this case as Confidential Exhibits 15 and 16, but not filed with the Commission as required by its Rule 253. The Applicants agreed during the hearing to file the IRPs in compliance with this Commission requirement. (Tr., p. 104.) BHP also agreed to file with us the EFPs required under South Dakota law. (Tr., p. 108.)

32. The Application contains a detailed explanation of the components of the Facility (Ex. 1, pp. 13-32) which is estimated to cost about \$237 million. (*Id.*, pp. 9, 33-34.) It also contains a confidential breakout of anticipated costs, with a detailed statement for each of the five elements of the Facility. (Confidential Ex. 21.) For each element, the costs are segregated into categories of Contract Engineering, Project Management, Equipment Procurement, Construction/Commissioning Contracts, and Indirect Costs. (*Id.*) Indirect Costs include such items as the IRP, the air permit, spare parts, sales taxes, and Allowance for Funds Used During Construction (AFUDC). (*Id.*)

33. In working up the costs, the Applicants relied in part on “vendor proposals, current equivalent project costs and known site development cost impacts.” (Ex. 20, p. 9.) The Black Hills Corporation family of companies has been active in building utility-owned generation. (Tr., p. 45.) It recently completed similar CC units in Pueblo, Colorado, and has constructed several CTGs. (Tr., p. 45.) This recent experience lends credibility to the cost estimates.

34. The Applicants proposed to finance construction through use of internally generated funds and short-term borrowings from the Black Hills Corporation utility money pool. (Ex. 1, p. 34; Tr., p. 37.) Details of the financial condition of the applicants were provided by Brian Iverson (Ex. 33) and supported by Federal Energy Regulatory Commission financial statements for both Applicants. (Exs. 34 and 35.) We find the Applicants’ financial condition to be sufficiently sound to support the Application. The Applicants intend to follow the practices of the Black Hills Corporation family, and issue long-term debt at the end of the construction period if the interest rates and borrowing environment remain attractive. (Tr., p. 37.) The parent company will provide equity to maintain the current capital structures of the two Applicants. (*Id.*)

35. The Applicants provided a schedule showing that detailed engineering commences November 1, 2012, and on-site construction begins April 1, 2013. (Ex. 22; Tr., pp. 29-30.) The schedule shows the CTG and CC to be available for commercial operation on June 2, 2014. (*Id.*)

36. After its evaluation of the Application, intervenor OCA concluded the Applicants had demonstrated a need for new generation resources (Ex. 200, p. 10; Tr., pp. 123-124) and accepted the planning reserve used by the Applicants in their IRPs. (Ex. 201, p. 21.) OCA denied any concern about the ability of Black Hills Corporation to construct and finance the Facility. (Ex. 201, p. 19.) OCA’s criticism of the Application boiled down to a single issue;

Due to the failure of the applicants to conduct a comprehensive review of the needs of both companies, as well as their failure to investigate viable alternatives to the [Cheyenne Prairie Generating Station], [OCA is] unable to recommend that the CPCN be granted.

(Ex. 201, p. 22; Tr., p. 124; Ex. 202, p. 3.) OCA subsequently changed its opinion, based on “a combination of the Companies’ rebuttal testimony and other discussions with the companies, and the protections and concessions adopted in the [Stipulation].” (Ex. 202, p. 3-4.)

37. The *Stipulation* has four major provisions: [i] a Black Hills Power and Cheyenne Light Generation Pool Study; [ii] a Final Construction Cost Price Cap of \$222,000,000; [iii] a possible deferral of the in-service date to October 1, 2014; and [iv] a Cheyenne Prairie Generation Station Rider that would phase in rates to pay for the financing of construction costs before the Facility goes into service. (Joint Ex. 300, pp. 3-8.) The derivation of the price cap is linked to the rate phase-in. (Tr., p. 66.)

38. The first provision would “review the opportunities to create a generation pool that would include the power supply resources of both of the applicants.” (Tr., p. 24.) The study would be completed before October 1, 2013, and would be supported by up to \$100,000 to be borne by shareholders. (Tr., pp. 24-25.) OCA believes that the Applicants may be able to plan, acquire, and operate the unified resource fleet cooperatively, with improved efficiencies and improved transparency. (Tr., p. 125; Ex. 300, p. 3.)

39. A formal generation pool is plainly worth investigating. The record shows that the similar operating requirements of the two Applicants played a critical role in the revised configuration of the Facility, *supra*, ¶¶ 23, 27. CLFP and BHP also used the same centralized services from their parent company to prepare their IRPs. Critical aspects of the final steps of the investigation, including the confidential assessment of purchase options in regional energy markets, likewise indicate the attractiveness of a centralized perspective. The same may be said of the preference for utility-owned generation. Because something like a pooled planning approach actually occurred in this case, and the result appears to be superior to the initial individual IRP results, an exploration of further steps toward a generation pool is reasonable.

40. As an added value, ratepayers would not bear the expense of the first \$100,000 of “outside consulting or legal support costs” for the investigation. The parties have also agreed to solicit the participation of the Staff of the South Dakota Public Utilities Commission. (Ex. 300, pp. 3-5.) Finally, in the Commission’s experience, collaborative efforts that have been sanctioned by the Commission tend to be more successful than efforts which are entirely voluntary.

41. The second provision of the *Stipulation* establishes a “Construction Cost Price Cap” of \$222 million. (Ex. 3, pp. 5-6.) The sole purpose and consequence of this price cap is to determine the scope of OCA participation in the general rate case to be filed for the completed Facility. (*Id.*) OCA will not contest the prudence of the Applicants’ final construction costs if the Applicants do not exceed the cap. (*Id.*) Stated another way, the parties agree that final construction costs of no more than \$222 million would result in just and reasonable rates for customers. (Tr., p. 77.)

42. The parties also agree the *Stipulation* will have no effect on the power of the Commission itself, or on the rights of other parties, to contest the prudence of rate base treatment for any and all construction costs. (Tr., pp. 78-79; Tr., p. 127.)

43. There is a mild disagreement between the parties over the source of the price cap. The OCA describes it as “about 6% less than the estimated cost of the Companies’ self build option,” and asserts “some of this reduction is due to the removal of the Allowance for Funds Used During Construction (AFUDC) amounts from the total estimate . . .” (Ex. 202, p. 9.) The Applicants explain that the price cap reflects removal of AFUDC from the original \$237 million total estimate, but adds back \$2 million of risk premium. (Tr., pp. 51-52.) The confidential detailed breakout of costs includes statements of the AFUDC with respect to the five major elements of the Facility. (Confidential Ex. 21.) The confidential figures support the Applicants’ assertion that AFUDC was \$17 million of the original \$237 million. (Tr., pp. 36-37.) It follows that simple arithmetic supports the Applicants’ explanation.

44. Disagreement notwithstanding, we have already found that recent experience of Black Hills Corporation lends credibility to the cost estimates. *Supra*, ¶33. The effect of the negotiated risk premium is to adjust the cost estimates upwards by less than 1%, which is a reasonable adjustment to account for uncertainties. We also recognize, as OCA argues, that ratepayers may benefit modestly from the incentive for the Applicants to efficiently manage the cost of the project against the standard of the estimate now on file. (Ex. 202, p. 9.)

45. OCA correctly points out we have approved other settlements “where the parties agreed that up to a certain point there would not be a prudence contest.” (Tr., p. 127.) Under the circumstances in this case, we find that the price cap is a reasonable settlement term and should be approved as we have done in other similar cases. Further, since the cap is not binding on the Commission or other potential rate case parties, the Commission is also in a position to assure that \$222 million does not become a de facto target for a final construction cost.

46. The third provision establishes an in-service date of October 14, 2014 (Ex. 3, p. 6.) rather than the scheduled completion date of on or about June 1. (Tr., p. 55.) There is a market for 2014 electric power capacity, and the Applicants will request proposals for blocks of power to meet energy and peaking capacity during the summer of 2014. (Tr., p. 55.) They will then compare that market response with the revenue requirement that would be associated with putting the Facility in service in June, and report a conclusion to the Commission by December 31, 2012. (Tr., p. 55; Ex. 3, p. 6.) If the contracts are more beneficial to customers, the Applicants will purchase the power and delay the in-service date of the Facility. (Tr., pp. 55-56.) A part of the calculation will depend on the fourth provision of the *Stipulation*, under which ratepayers would fund the cost of construction of the Facility. (Tr., p. 56.)

47. Since the price cap provision depends upon a report to be made to the Commission, and on a demonstration that the results are favorable to ratepayers, we find it reasonable.

48. The fourth provision is for a tariff rider that would have ratepayers prepay the projected \$17 million of AFUDC. (Ex. 3, pp. 6-8.) Rates will be adjusted upwards on a quarterly basis to advance capital to the utility as Facility construction progresses. (Ex. 3, p. 7.) Subject to a true-up, AFUDC would be largely eliminated from rate base in the next general rate case, reducing the rates that consumers would otherwise have to pay. (Tr., pp. 74-75, 86-87.) The *Stipulation* also provides that the debt component of the Applicants' rate of return on the tariff rider would be determined by reference to the short-term debt available to Black Hills Corporation, rather than by the higher long-term rate for debt that would apply to AFUDC in a general rate case. (Ex. 3, p. 7.) The present value of the resulting savings is conservatively estimated at \$1.5 million for CLFP customers and \$1.1 million for Black Hills Power customers. (Tr., pp. 100-101, 106-107, 126.) The Applicants would likely book lower earnings during construction as a result of the proposal. (Tr., p. 76.)

49. The parties agree the prepayment of AFUDC will mitigate the impact of the rate increase that will accompany the completed Facility. This can be accomplished by ramping up the rate increase up before the Facility is complete and by reducing the overall amount that will be required in the general rate case. (Tr., pp. 75, 126.)

50. By statute, an innovative ratemaking measure like the tariff rider can only be proposed by the utilities. *Infra*, ¶69. To the extent that it provides a benefit for ratepayers, the benefit is one that the Commission could not initiate itself, and is therefore a benefit attributable to the settlement.

51. Rates cannot be set in this proceeding, so, if the Commission approves the *Stipulation*, the Applicants must file an application for the rate phase-in plan in a separate docket and subject to additional notice. (Tr., p. 69.) The rider "shall terminate with the effective date of new base rates which include the Applicants' investment in and costs of the newly completed Cheyenne Prairie Generating Station." (Ex. 3, p. 7.) The Applicants intend the rider to terminate when their ability to book AFUDC terminates, which typically occurs with the in-service date of a power facility. (Tr., p. 80.)

52. Because the phase-in tariff reduces overall costs to ratepayers, because the phase-in tariff can mitigate rate shock, and because the final details of the phase-in tariff are subject to further and complete consideration in a separate proceeding, we find the fourth provision of the *Stipulation* is reasonable.

53. Based on the pre-filed testimony and exhibits of Brian Iverson and further explanation of the intentions of the Applicants at the hearing of this matter, we find the Applicants have the financial ability to proceed with the successful construction and operation of the Facility.

54. Based on the Application with its supporting testimony and exhibits, the rebuttal testimony and exhibits of the Applicants, the *Stipulation* testimony and exhibits of the Applicants and OCA, and the hearing testimony, we find that the Applicants have disclosed [i] the need for the project; [ii] their rationale for selecting the specific Facility; [iii] current information regarding the construction and operation of the Facility, including the status of necessary

permits; and [iv] pertinent financial information, including the anticipated revenue requirement and the means for financing the project. Based on these disclosures, we find that the Applicants have filed their application in good faith.

55. Based on the Application with its supporting testimony and exhibits, the rebuttal testimony and exhibits of the Applicants, the *Stipulation* testimony and exhibits of the Applicants, and the hearing testimony, as supported by the pre-filed and hearing testimony of OCA, we find there is a need for additional service which warrants construction of the proposed Facility.

56. Except for such details as may be specifically noted in these Findings, we find the testimony of the Applicants' witnesses to be credible.

57. We find that the public interest would be served by issuing a Certificate of Public Convenience and Necessity.

58. We find that the provisions of the *Stipulation*, taken as a whole, serve the public interest.

59. Any conclusion of law set forth below which includes a finding of fact may also be considered a finding of fact and therefore incorporated herein by reference.

Principles of Law

60. Wyoming statutes and Wyoming Supreme Court decisions establish the basis of and decisional parameters for our consideration of applications for certificates of public convenience and necessity. *Supra*, ¶15 W.S. § 37-2-205(a) states, in part:

No public utility shall begin construction of a line, plant or system, or of any extension of a line, plant or system without having first obtained from the commission a certificate that the present or future public convenience and necessity require or will require such construction. . . .

61. W.S. § 37-2-205(c) states the criteria for the Commission's action on an application:

Before any certificate may issue, under this section, a certified copy of its articles of incorporation or charter, if the applicant be a corporation, shall be filed in the office of the commission. *The commission shall have power, after hearing involving the financial ability and good faith of the applicant and the necessity of additional service in the community, to issue said certificate, as prayed for, or to refuse to issue the same, or to issue to it for the construction of a portion only of the contemplated line, plant, or system, or of a portion only, of the contemplated line, plant, system or extension thereof, or for the partial exercise only of said right or privilege, and may attach to the exercise of the rights granted by said certificate such terms and conditions as in its judgment the public convenience and necessity may require. [Emphasis added.]*

62. The Wyoming Supreme Court has described this as “the three-part standard by which the PSC is to decide applications for certificates.” *Williston Basin Interstate Pipeline Co. v. Wyoming PSC*, 2000 WY 16, ¶10, 996 P.2d 663, 667 (Wyo. 2000). The financial ability standard may be met through evidence of “corporate financial records and the testimony of corporate officers.” (*Id.*, ¶11, 996 P.2d at 668.) The good faith standard may be met by reference to established definitions of good faith, including “an honest intention to abstain from taking any unconscientious advantage of another, even through the forms or technicalities of law together with an absence of all information or belief of facts which would render the transaction unconscientious.” (*Id.*, ¶13, 996 P.2d at 668.) The necessity of additional service may be met by evidence that the proposed facility “was not duplicative and was in the best interest of the community.” (*Id.*, ¶16, 996 P.2d at 669.)

63. Commission Rule § 203(a) requires the filing of an application for “construction of major utility facilities where a Certificate of Public Convenience and Necessity is required.”

64. Commission Rule § 204 sets out a list of the basic requirements for information to be included in an application for a CPCN, which, in pertinent part, are:

- (a) The name and address of the applicant;
- (b) The type of plant, property or facility proposed to be constructed;
- (c) A complete description of the facilities proposed to be constructed, including preliminary engineering specifications in sufficient detail to properly describe the principal systems and components; and final and complete engineering specifications when they become available;
- (d) List the rates, if any, proposed to be charged for the service that will be rendered because of the proposed construction;
- (e) State the estimated total cost of the proposed construction;
- (f) State the manner by which the proposed construction will be financed;
- (g) State the financial condition of the applicant;
- (h) State the estimated annual operating revenues and expenses that are expected to accrue from the proposed construction;
- (i) State the estimated starting and completion date of the proposed construction;

* * *

- (k) The project is a major utility facility, the application shall also contain the information required by Section 205 and 206 (where applicable) below. . . .

65. Commission Rule § 205 requires the submission of additional information when the construction of a “major utility facility” is proposed:

- (a) The proposed site by an appropriate description of the involved properties and the county or counties in which the major utility facility will be located and where possible a metes and bounds description; a description of the route of line or lines in

- the project and the number of route miles located in each county; a description of the various types of country in or through which the facility will be constructed;
- (b) A brief report on the surrounding scenic, historical, archeological and recreational locations, natural resources, plant and animal life, land reclamation, possible safety hazards, and plans for protecting the environment;
 - (c) Land, mineral and water requirements for the major utility facility, the status of the acquisition of land, or rights-of-way or of minerals and water for the project, the sources or locations thereof, and the proposed method of transportation and utilization;
 - (d) A statement setting forth the need for the project in meeting present and future demands for service, in Wyoming or other states, and the proposed sale of the utility commodity or service which the construction of this facility will make available;
 - (e) A statement of the effect of the project on applicant's and other systems' stability and reliability, if applicable;
 - (f) The estimated cost of and plans for financing the project, and a statement of the estimated effect of the project on applicant's revenues and expenses;
 - (g) A list of local, state, Indian, or federal governmental agencies having requirements which must be met in connection with the construction or operation of the project, and the status before those agencies; and applicant shall file such agency's final order when entered.

66. Commission Rule § 206 adds requirements where construction of a power plant is involved:

- (a) A general description of the devices to be installed at the major utility facility to protect air, water, chemical, biological and thermal qualities; the designed and tested effectiveness of such device; and the operational conditions for which the devices were designed and tested;
- (b) The name of any body or source of water or river along which the major utility facility will be constructed or from which it will obtain or return water;
- (c) A geological report of the station site including foundation conditions, groundwater conditions, operating mineral deposits within a one-mile radius; and a topographical map showing the area within a five-mile radius.

67. Section 207 allows the Commission to set the “. . . time interim between the filing of an application for authority under these Rules and commencing construction of a major utility facility.”

68. Our basic and overriding standard in this case is the public interest and the desires of the utility are secondary to it. In *PacifiCorp v. Public Service Commission of Wyoming*, 2004 WY 164, 103 P.3d 862 (2004), the Wyoming Supreme Court, 2004 WY 164 at ¶13, quoted with favor *Sinclair Oil Corp. v. Wyoming Public Service Comm'n*, 2003 WY 22, at ¶9, 63 P.3d at 887 (Wyo. 2003):

Speaking specifically of PSC, we have said that PSC is required to give paramount consideration to the public interest in exercising its statutory powers to regulate and supervise public utilities. The desires of the utility are secondary. [Citation omitted.]

69. W.S. § 37-2-121 authorizes public utilities to initiate proceedings to employ innovative ratemaking methods:

. . . Any public utility may apply to the commission for its consent to use innovative, incentive or nontraditional rate making methods. In conducting any investigation and holding any hearing in response thereto, the commission may consider and approve proposals which include any rate, service regulation, rate setting concept, economic development rate, service concept, nondiscriminatory revenue sharing or profit-sharing form of regulation and policy, including policies for the encouragement of the development of public utility infrastructure, services, facilities or plant within the state, which can be shown by substantial evidence to support and be consistent with the public interest.

70. The Wyoming Administrative Procedure Act, at W.S. § 16-3-107, establishes general procedures in Commission cases, including the giving of reasonable notice. In accord are W.S. §§ 37-2-201, 37-2-202, and 37-3-106. (*See also*, Commission Rule §§ 106 and 115.)

71. The Commission may approve a stipulation or agreed upon settlement as a means of disposing of any matter coming before it at hearing pursuant to Commission Rule § 119, and W.S. § 16-3-107(n) of the Wyoming Administrative Procedure Act.

Conclusions of Law

72. The Applicants are public utilities as defined by W.S. § 37-1-101(a)(vi)(C). Under W.S. § 37-2-112, the Commission has the general and exclusive jurisdiction to regulate the Applicants as public utilities in Wyoming. The Commission has duly authorized the Applicants to provide retail electric and gas public utility service in their respective Wyoming service territories under CPCNs previously issued, and from time to time amended, by the Commission.

73. The Facility is a "line, plant or system" for which a CPCN is required pursuant to W.S. § 37-2-205(a). The Facility is also a "major utility facility" within the meaning of Commission Rule 202(c), and as such, is subject to the application requirements of Commission Rules 203(a), 204, 205 and 206. Based on our Findings, we conclude that the Applicants have met the filing requirements of the Commission Rules.

74. Based upon our Findings, which include evidence of corporate financial records and the testimony of corporate officers, we conclude the Applicants have the financial ability to proceed with the successful construction and operation of the Facility.

75. Based upon our Findings, which include disclosures required by the Commission's Rules and the successful settlement negotiations with OCA, and based upon our favorable assessment of the credibility of the witnesses appearing on behalf of the Applicants, we conclude that the Applicants have met the good faith standard of W.S. § 37-2-205(c).

76. Based upon our Findings, which include the testimony of OCA as well as the Application and testimony and exhibits of the Applicants, we conclude there is need for additional service which warrants construction of the proposed Facility.

77. We conclude that: [i] the present and future public convenience and necessity require the construction and operation of the Facility, and [ii] a CPCN should be issued in this case. The Applicants have carried their burdens of proof and persuasion. It is in the public interest that the certificate be issued.

78. We reach our conclusion to issue the CPCN independent of our determination of the additional issue of approving the *Stipulation*. The showing necessary to sustain issuance rests on the record as described in our Findings. It does not and cannot rest on the limited focus of the matters OCA has chosen to address.

79. The *Stipulation* is most easily viewed as a list of conditions to be appended to our decision. Based on our Findings, we conclude that the parties have fully and fairly described how they reached agreement on these conditions.

80. We have found that ratepayers may reasonably expect to benefit from the terms of the *Stipulation*. A successful collaboration may bring improved efficiencies and transparency through a unified resource fleet, and the success of the collaboration may be more likely due to \$100,000 of support contributed by shareholders. The price cap provides an incentive to the Applicants to efficiently manage the cost of the project. If supported by a favorable market response to requests for proposals to sell power, the deferral of the in-service date may result in substantial savings to ratepayers. An innovative tariff rider may save ratepayers money by reducing the expense associated with AFUDC, and by largely eliminating AFUDC from rate base in the rate case to be filed when the Facility is complete. Any potential detriments to the bargain struck by the parties are offset by requirements for further review and approval by the Commission.

81. As important, we found that at least one of these benefits, the tariff rider, is a benefit the Commission could not itself have initiated even if the parties had not reached a settlement and the case had proceeded to a hearing on the merits. *Supra*, ¶¶50, 69.

82. We have considered whether the parties may have intentionally or inadvertently damaged the interests of any ratepayer or class of ratepayers. It is usually possible to conceive of an example. In the instance of the phase-in tariff, a ratepayer who only remains in Cheyenne for the coming year would pay this new charge without ever realizing the benefits of eliminating AFUDC from the rates to be charged when the Facility goes into service. However, ratepayers overall may benefit from the rider, and there is no apparent discrimination between classes of ratepayers. On balance and over time, the prospect is favorable, and if we have overlooked some

significant detail, the Commission will have the advantages [i] of continuing jurisdiction over this case and [ii] of a separate and further proceeding to consider the proposed tariff in its final form. We conclude that the parties have not overlooked any concern of significance to ratepayers.

83. Based on our Findings and the Conclusions we have reached thus far, we further conclude that approval of the *Stipulation* is in the public interest.

84. Proper legal notice of this proceeding was given in accordance with the Wyoming Administrative Procedure Act, W.S. § 37-2-203, and the Commission's Rules, especially Section 106 thereof. The public hearing was held and conducted pursuant to W.S. §§ 16-3-107, 16-3-108, 37-2-203, and applicable sections of the Commission's Rules. The intervenor, OCA, was a party to the case for all purposes.

85. Public deliberations were held in compliance with W.S. § 16-4-403.

86. Based upon the record as discussed in the Findings of Fact, the Principles of Law, and our Conclusions of Law; approval of the following is just and reasonable, supported by the preponderance of the evidence and in the public interest:

a. The joint application of CLFP and BHP for a CPCN to construct, operate and maintain the Facility, all as described more fully herein and in the application and supporting documentation, should be granted;

b. The *Stipulation* should be approved with the understanding that the accompanying *Order* will not determine any ratemaking issues concerning the costs, expenses or revenues related to the Facility or its construction or operation, all of which are expressly reserved for further decision in appropriate proceedings before the Commission;

c. That the Applicants should within ten days of the date of this *Order* file with the Commission all IRPs consistent with Commission Rule 253, as well as the EFPs they file with the South Dakota Commission, specifically those EFPs filed on June 25, 2010, and June 29, 2012; and

d. That the Applicants should file with the Commission all construction reports pursuant to Commission Rule § 229.

IT IS THEREFORE ORDERED:

1. The joint application of Cheyenne Light, Fuel and Power Company and Black Hills Power, Inc., for a certificate of public convenience and necessity to construct, operate and maintain the Cheyenne Prairie Generating Station and related facilities, all as described more fully herein and in the application and supporting documentation, is hereby granted;

2. The *Stipulation and Agreement* is hereby approved, and attached to this *Order* as Appendix A, however, this *Order* does not determine any ratemaking issues concerning the

costs, expenses or revenues related to the Cheyenne Prairie Generating Station or its construction or operation, all of which are expressly reserved for further decision in appropriate proceedings before the Commission;

3. Cheyenne Light, Fuel and Power Company and/or Black Hills Power, Inc., shall contemporaneously file with the Commission their integrated resource plans under Commission Rule 253 and the Energy Facility Plans they file with South Dakota in the future, and specifically they shall provide the Commission with those filed with South Dakota on June 25, 2010, and June 29, 2012, within ten days of the issuance of this *Order*;

4. The Commission will require no time interval prior to the commencing of construction, it being the intent of the Commission to allow construction to begin immediately;

5. Cheyenne Light, Fuel and Power Company and Black Hills Power, Inc., shall comply with Section 229 of the Commission's Rules regarding construction reports; and

6. This *Order* is effective immediately.

MADE and ENTERED at Cheyenne, Wyoming, on January 8, 2012.

PUBLIC SERVICE COMMISSION OF WYOMING



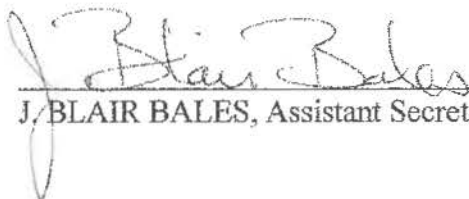
ALAN B. MINIER, Chairman



STEVE OXLEY, Deputy Chairman



Attest:



J. BLAIR BALES, Assistant Secretary



Todd Brink
Senior Managing Counsel
Todd.Brink@Blackhillscorp.com

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P: 605-721-2516
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July 13, 2012

Blair Bales
Victoria Fry
Wyoming Public Service Commission
2515 Warren Avenue Cheyenne, Wyoming 82002

Re: Joint Application of Cheyenne Light, Fuel and Power Company and Black Hills Power Inc., for a Certificate of Public Convenience and Necessity for a Gas-Fired Electric Generating Power Plant and Related Facilities. Docket No. 20003-113-EA-11 and 20002-81-EA-11 (Record No. 13007)

Dear Ms. Bales and Ms. Fry:

Enclosed for filing is the Settlement Agreement for the above referenced dockets. This Stipulation and Agreement is supported by Cheyenne Light Fuel and Power Company, Black Hills Power Inc., and The Wyoming Office of Consumer Advocate.

The Parties to this Stipulation and Agreement will file testimony once it is completed but no later than close of business on July 18, 2012.

If you have any questions regarding this information please contact Lee Magnuson at 605-978-5200 or lmagnuson@lindquist.com and myself at 605-721-2516 or todd.brink@blackhillscorp.com.

Sincerely,

A handwritten signature in blue ink, appearing to read "Todd Brink".

Todd Brink

Before the Public Service Commission
of the State of Wyoming

JOINT APPLICATION OF CHEYENNE LIGHT, FUEL & POWER
COMPANY AND BLACK HILLS POWER, INC.
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND
NECESSITY FOR A GAS-FIRED ELECTRIC GENERATING
POWER PLANT AND RELATED FACILITIES

STIPULATION AND AGREEMENT

DOCKET NO 20003-113-EA-11
DOCKET NO 20002-81-EA-11
RECORD # 13007

July 13, 2012

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ATTACHMENTS FOR SETTLEMENT

ATTACHMENTS

DESCRIPTION

Attachment 1	Cheyenne Prairie Generating Statement Rider
Attachment 2	Illustrative Calculation of Rider
Attachment 3	AFUDC and NPV Calculations

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

JOINT APPLICATION OF CHEYENNE)	
LIGHT, FUEL & POWER COMPANY AND)	
BLACK HILLS POWER, INC.)	DOCKET NO 20003-113-EA-11
FOR A CERTIFICATE OF PUBLIC)	DOCKET NO 20002-81-EA-11
CONVENIENCE AND NECESSITY FOR A)	RECORD # 13007
GAS-FIRED ELECTRIC GENERATING)	
POWER PLANT AND RELATED FACILITIES)	

STIPULATION AND AGREEMENT

The parties to this Stipulation and Agreement (“Settlement Agreement”) are Cheyenne Light, Fuel and Power Company (“Cheyenne Light”) and Black Hills Power, Inc. (“Black Hills Power”), (Cheyenne Light and Black Hills Power collectively referred to as “Applicants”) and the Wyoming Office of Consumer Advocate (“OCA”). Applicants and OCA shall collectively be referred to as the “Parties”.

The Parties, for good and valuable consideration, herewith agree to resolve all uncontested and disputed issues (“Settled Issues”) contained in the Joint Application of Cheyenne Light and Black Hills Power for a Certificate of Public Convenience and Necessity for a Gas-Fired Electric Generating Power Plant and Related Facilities case filed on November 1, 2011, by Applicants with the Wyoming Public Service Commission (“Commission”), in Docket No. 20003-113-EA-11 and Docket No. 20002-81-EA-11, Record No. 13007 (“CPCN Case”). The Settled Issues include compromises of the filed positions of the stipulating Parties, and are specifically based upon the record in this case in its entirety, including the Direct Testimony and Exhibits filed by the OCA, along with the Direct and Rebuttal

Testimony and Exhibits filed by Cheyenne Light and Black Hills Power. This Settlement Agreement sets forth a detailed description of the Settled Issues and is a comprehensive resolution of all issues and matters, and which the Parties believe is in the public interest.

NOW THEREFORE, the Parties stipulate and agree to the following, and respectfully request that the Commission approve this Settlement Agreement.

I. PROCEDURAL HISTORY

1. On November 1, 2011, Applicants submitted an application, together with pre-filed testimony and exhibits from eleven witnesses, requesting that the Public Service Commission of Wyoming (“Commission”) enter an order granting Applicants a Certificate of Public Convenience and Necessity authorizing the construction, operation and maintenance of the Cheyenne Prairie Generating Station in Cheyenne, Wyoming.

2. On November 22, 2011, the Commission issued a Notice of Application in 20003-113-EA-11 and Docket No. 20002-81-EA-11, Record No. 13007. Requests for intervention were to be filed with the Commission on or before December 22, 2011. Pursuant to Wyoming statute, the OCA participated as an intervenor. There are no other intervenors.

3. On January 4, 2012, the Commission issued its Scheduling Order in the above-referenced Docket.

4. On May 21, 2012, the OCA timely filed testimony and an exhibit.

5. On June 18, 2012, the Company timely filed rebuttal testimony responding to issues raised in the OCA’s testimony filed on May 21, 2012. Subsequently, the Parties engaged in settlement discussions, which resulted in this Settlement Agreement.

6. The Commission’s hearing in this docket is scheduled to commence on July 31, 2012.

II. THE STIPULATION

The Parties agree to settlement of the CPCN Case as follows:

1. **Black Hills Power And Cheyenne Light Generation Pool Study.** The Parties acknowledge that the Utilities own and operate affiliated vertically integrated electric utility systems and that these systems have both similar and unique operating characteristics. The Applicants have made efforts to achieve efficiencies through both joint and centralized efforts, and have at times considered whether there would be advantages to customers from a jointly-owned and operated generation pool that combines their respective power supply resources and capabilities. The Parties agree that with the construction of the Cheyenne Prairie Generating Station it is an appropriate time to seriously evaluate the potential costs and benefits of a combined generation pool for the Utilities. The potential benefits of such a pool arrangement could include among other things, more efficient and comprehensive resource planning and acquisition and the potential for more efficient and transparent operation of the combined system. Therefore, a collaboration will be formed between Black Hills Power, Cheyenne Light, the OCA and the Staff of the South Dakota Public Utilities Commission (to be invited, but not required to participate) for the purpose of thoughtfully evaluating the creation of a generation pool for the Applicants. The OCA and the Staff of the South Dakota Public Utilities Commission could become parties in any future proceeding before either the Wyoming Public Service Commission or the South Dakota Public Utilities Commission regarding any agreements that are reached among the parties to the collaborative. The first meeting of the collaborative will be held on or before October 1, 2012 at which time the parties to the collaborative will begin to jointly develop the study scope. The parties to the collaborative agree to meet thereafter as necessary to complete the study. Participation in this collaborative

is not restricted to the parties to this CPCN proceeding but shall be open to any interested stakeholder or customer whose interests could be affected by the outcome of the collaborative. The Applicants shall be principally responsible for conducting the study with periodic review and comment by the other collaborators.

Possible considerations for study include:

- Existing power supply costs
- Expected power supply costs
- Off-system sales opportunities
- Transmission requirements
- Load characteristics
- Planning and operating reserves
- State and federal regulatory considerations and restrictions
- Structure of generation pool and related agreements
- Timing of implementation (if appropriate)
- Balancing purchases and sales
- Increased market access
- Plant dispatch
- Plant fuel requirements
- Other considerations as necessary

The study shall be conducted and completed by September 30, 2013. Should outside expertise be required to complete the study the Applicants agree to incur up to \$100,000 of outside consulting or legal support costs at shareholder expense. Prior to the completion and publication of the report a draft shall be provided to the OCA and the Staff of the South Dakota

Public Utilities Commission for review and comment. The final report shall be provided to each utility's respective state regulatory bodies on an informational basis. The parties to the collaborative will endeavor to reach agreements regarding the development of a power pool or other mechanisms to promote the efficient planning and operation of the Companies' electric generation resources and will identify, in the report, any agreements reached. However, any agreements reached by the parties to the collaborative would be subject to review and approval by the Commission in subsequent proceedings before the Commission.

2. **Final Construction Cost Price Cap.** The Parties agree to a price cap for the Cheyenne Prairie Generating Station of \$222,000,000. In order to be consistent with the Cheyenne Prairie Generating Station Rider section of this agreement and the related tariff proposal, the price cap assumes that the Applicants would not record an allowance for funds used during construction (AFUDC) for the new generation project. The Parties agree that in order to increase the likelihood of construction cost savings, the Utilities shall employ an owners' self-build approach which incorporates competitive procurement practices for the construction of the new generation.

The intent of this price cap is to establish the construction cost under which the Applicants will have been deemed to be prudent in their management of the construction effort. The OCA agrees not to contest the prudence of capital expenditures associated with the construction of the generating facility that do not exceed the agreed upon price cap of \$222,000,000.

Should the final construction cost exceed the price cap, then the Applicants shall have the burden of proof in demonstrating to the Commission's satisfaction that the costs in excess of the price cap were prudent and reasonably incurred and should be eligible for inclusion in

rate base. The OCA shall retain its statutory rights to dispute the Applicants' justification for the construction cost above the price cap and its inclusion in rate base for determining the Applicants' revenue requirement.

3. **In-Service Date.** The Parties agree that an in-service date of October 1, 2014 should be evaluated for purposes of both ease and cost of construction, and ultimate cost to customers in 2014. The planned in-service date shall be October 1, 2014 unless the Applicants' 2012 review of the power market indicates that acquiring capacity and energy for the summer peak season of 2014 for Black Hills Power and Cheyenne Light will cost customers more than completing the project in time to meet the summer 2014 peak season. The Applicants will report their findings regarding the market availability of capacity and energy and their plans to acquire or construct the needed capacity to the Commission and OCA prior to December 31, 2012.

4. **Cheyenne Prairie Generating Station Rider.** The Parties desire to both lower the construction cost for inclusion in rate base of the new generation and to minimize to the extent practical the impact upon customers as rates are increased to reflect the new higher costs. As a result, the Parties agree that Black Hills Power and Cheyenne Light shall each prepare an application to be submitted to the Commission prior to October 1, 2012 to accomplish through new tariffs a phase-in of rates during the construction of the new generation. The proposed tariffs shall be prepared consistent with the provisions for innovative rate approaches granted by Wyoming statute 37-2-121. The intent of the application is to both reduce the amount of allowance for funds used during construction and to gradually begin the process of increasing rates to reflect the cost of the new generation. The application will be

prepared to support the tariff methodology provided in Attachment 1, which is generally described here:

- The first quarterly filing shall be filed concurrent with the application to establish the new tariffs.
- Each filing shall forecast the capital expenditures for the quarter that the proposed capital project surcharge is to be effective. The first filing shall also include actual and forecasted capital and allowance for funds used during construction (AFUDC) through the effective date of the first surcharge.
- The quarterly filings are intended to result in a graduated increase in customer rates over the approximate two year construction period and is intended to eliminate the amount of AFUDC ultimately included in rate base for determining the utilities' revenue requirements in Wyoming.
- A comparison of forecasted and actual capital expenditures shall be prepared quarterly and excess forecasts of capital shall require the utility to pay its customers interest at the rate of return specified in the tariff.
- AFUDC shall only be booked by the utilities until the effective date of the surcharge and shall be minimal or non-existent once the forecasted capital rate of return surcharge begins.
- Because the new generation is principally due to a necessary increase in the Applicants' generation capacity, the surcharge amount must first be allocated to the individual customer classes prior to establishing the energy rate of the surcharge for each customer class.
- The Cheyenne Prairie Generating Station Rider rate of return shall be determined as follows:
 - Most recent percentage equity component from the utility's last rate case
 - Interest rate at the most recent short-term debt rate of Black Hills Corporation's line of credit revolver dated February 1, 2012 (currently less than 2% per annum)
 - Shall be adjusted to include a gross-up for Federal income taxes
- The Cheyenne Prairie Generating Station Rider tariff shall terminate with the effective date of new base rates which include the Applicants' investment in and costs of the newly completed Cheyenne Prairie Generating Station.

- Under no circumstances shall the Cheyenne Prairie Generating Station be considered to be included as part of rate base until its commercial operation date (in-service date) and the completion of the rate cases required to accomplish such inclusion.

In support of the rate mitigation plan and rate rider described above the Parties offer two additional attachments. Attachment 2 is an illustrative calculation of the rider provided for in the proposed tariff. Attachment 3 compares the net present values of future customer costs under the proposed rider and traditional AFUDC.

III. PROCEDURAL MATTERS

Date of Commission Decision. The Parties agree to request an expedited decision from the Commission and agree to ask the Commission that it enter its Order no later than September 1, 2012, determining that the Applicants have demonstrated need and granting Applicant a Certificate of Public Convenience and Necessity authorizing the construction, operation, and maintenance of the Cheyenne Prairie Generating Station and related facilities as described in the Application filed November 1, 2011, and as further described in this Settlement Agreement, or that the Commission enter its order as soon after September 1, 2012 as may be approved by the Commission. The Parties agree to the waiving of post hearing briefs unless specifically requested to file briefs by the Commission.

IV. GENERAL TERMS AND CONDITIONS

1. **Public Interest.** The Parties stipulate and agree that this Settlement Agreement is in the public interest and that in its entirety it is reasonable. The Parties acknowledge that this Settlement Agreement represents a compromise in the positions of the Parties in this Docket and has been negotiated in good faith. The Parties have agreed to present hearing testimony and evidence in support of this Settlement Agreement and to acknowledge that their

support and advocacy of the Settlement Agreement is based upon a finding by the Commission that the Settlement Agreement is in the public interest. The Parties stipulate to support all elements of this Settlement Agreement as being in the public interest in proceedings before the Commission, and to advocate in good faith that the Commission approve this Settlement Agreement in its entirety.

2. **Settlement Negotiations.** The Parties stipulate and agree that all negotiations relating to this Settlement Agreement are privileged and confidential, and no Party shall be bound by any position asserted in the negotiations, except to the extent expressly stated in this Settlement Agreement.

The Parties stipulate and agree that this Settlement Agreement represents a compromise in the positions of the Parties. As such, evidence of conduct or statements made in the negotiation and discussion phases of this Settlement Agreement shall not be admissible as evidence in any proceeding before the Commission or any court.

3. **Settlement Effectiveness.** The Parties stipulate and agree that except as expressly noted herein, the execution of this Settlement Agreement shall not be deemed to constitute an acknowledgement of any Party hereto of the validity or invalidity of any particular method, theory or principle of regulation, and no Party shall be deemed to have agreed that any principle, method or theory of regulation employed in arriving at this Settlement Agreement is appropriate for resolving any issue in any other proceeding. The execution of the Settlement Agreement shall not constitute the basis of estoppel or waiver in future proceedings by any Party. Furthermore, no Party hereafter shall be deemed to be bound by any position asserted by any Party, and no finding of fact or conclusion of law other than those expressly stated herein shall be deemed to be implicit in this Settlement Agreement.

4. **Hearing Witnesses and Exhibits.** The Parties shall submit a Settlement Exhibit List to the Commission. The Parties stipulate and agree to the admission of all documents that are identified in the Settlement Exhibit List. The Parties waive cross examination of witnesses for any Party to the Settlement Agreement provided that the witnesses' hearing testimony is consistent with this Settlement Agreement. The Parties will not object to the admission of written testimony and exhibits into the record.

5. **Support For Settlement.** The Applicants and the OCA individually shall file testimony in support of the Settlement Agreement. Further, at the scheduled hearing in this matter, it is the Parties' intent to make: (a) Applicants' witnesses available to explain the proposed Settlement Agreement; and (b) an OCA witness(es) available to explain the proposed Settlement Agreement. In addition, the Parties will have available each of their witnesses to answer any questions of the Commission or its staff regarding any of the filed testimony.

The Parties acknowledge that this Settlement Agreement represents a compromise in the positions of the Parties in this Docket and has been negotiated as a packaged settlement. The Parties agree to present hearing testimony and evidence in support of this Settlement Agreement as requested by the Commission and to acknowledge that their support and advocacy of the Settlement Agreement is based upon the Settlement Agreement as a whole, in its entirety, and not based upon its individual components viewed in isolation. The Parties acknowledge that their support and advocacy of the Settlement Agreement may be compromised by material alterations to the Settlement Agreement. In the event the Commission rejects or materially alters the Settlement Agreement, the Parties agree they are no longer bound by its terms and are not deemed to have waived any of their respective procedural or due process rights under Wyoming law.

6. **Commission Approval.** If the Commission chooses to adopt and approve the Settlement Agreement, this Settlement Agreement resolves all disputed matters relative to this proceeding. Any disputed matters shall be deemed resolved to the extent that the Settlement Agreement is not compromised by material alterations.

The issuance of an Order approving this Settlement Agreement shall not be deemed to work as an estoppel upon the Parties or the Commission, or otherwise establish or create any limitation on or precedent of the Commission in future proceedings.

This Settlement Agreement shall not become effective and shall be given no force and effect until the issuance of a final Commission decision that accepts and approves this Settlement Agreement.

This Settlement Agreement is in the public interest and is the result of a negotiated settlement. The compromises and settlements set forth in this Settlement Agreement are consistent with the public interest and are supported by the Parties' testimony in this proceeding.

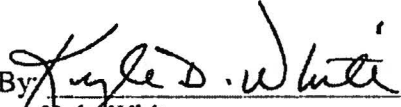
7. **Settlement Execution.** This Settlement Agreement may be executed by electronic mail or facsimile in one or more counterparts and each counterpart shall have the same force and effect as an original document and as if all the Parties had signed the same document. Any signature page of this Settlement Agreement may be detached from any counterpart of this Settlement Agreement without impairing the legal effect of any signatures thereon, and may be attached to another counterpart of the Settlement Agreement identical in form hereto but having attached to it one or more signature page(s).

(Signature page to follow)

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DATED this 13th day of July, 2012

Cheyenne Light, Fuel & Power Company

By: 

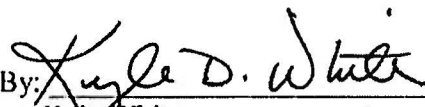
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Cheyenne Prairie Generating Station Rider

Original Sheet No. 50

Page 1 of 1

CHEYENNE PRAIRIE GENERATING STATION RIDER

APPLICABLE

This Cheyenne Prairie Generating Station (CPGS) Rider applies to all electric service rate schedules for all classes of services authorized by the Wyoming Public Service Commission (Commission) and to all customers taking service pursuant to contract, rather than tariff, unless specifically exempted by Order of the Commission.

The CPGS Rider shall be calculated quarterly based on forecasted Cheyenne Prairie Generating Station construction costs and kWh billing by customer class and shall include an over-or-under recovery from prior quarters through the Balancing Account as defined on Tariff Sheet No. 51. Cheyenne Light, Fuel and Power Company will make a CPGS Rider filing with the Commission quarterly.

CPGS REVENUE REQUIREMENT CALCULATION

This calculation is made for each month of the quarter and then the monthly revenue requirements are totaled for the CPGS revenue requirement:

1.	Forecasted Monthly Construction Costs	\$	
2.	Forecasted Monthly Cumulative Construction Costs	\$	
3.	CPGS Rider Rate of Return		6.10 %
4.	CPGS Return on Costs (line 2 x line 3 ÷ 12)	\$	
5.	CPGS Rider Equity Return		5.18 %
6.	CPGS Rider Return on Equity (line 2 x line 5 ÷ 12)	\$	
7.	Federal Tax Gross-up Factor		1.53846
8.	Equity Return Tax Gross-up (line 6 x line 7)	\$	
9.	Monthly Revenue Requirement (line 8 + line 4 – line 6)	\$	
10.	Franchise Tax (line 9 x 1%)	\$	
11.	Monthly CPGS Revenue Requirement (line 9 + line 10)	\$	

FORECASTED MONTHLY CONSTRUCTION COSTS (Line 1)

Forecasted Monthly Construction Costs represent the expected costs incurred for construction of the Cheyenne Prairie Generating Station for the month.

FORECASTED MONTHLY CUMULATIVE CONSTRUCTION COSTS (Line 2)

Forecasted Monthly Cumulative Construction Costs represent the expected cumulative costs incurred for the construction of the Cheyenne Prairie Generating Station from project inception as of the end of the forecast month.

CPGS RIDER RATE OF RETURN (Line 3)

CPGS Rider rate of return represents the rate of return based on the equity and debt structure as approved in Docket No. 20003-114-EP-12. The rate of return will be as follows (54% x 9.6%) + (46% x 2%) or 6.10%. The debt cost of two percent is for illustrative purposes only but is representative of the short term credit revolver rate for Black Hills Corporation dated February 1, 2012. The actual debt cost used in the calculation at the time of each quarterly filing will be the forecasted Libor based interest rate of the revolver plus 25 basis points to account for Black Hills costs.

Date Issued August 15, 2012

Chris Kilpatrick
Director of Resource Planning and Rates

Date Effective November 1, 2012



Cheyenne Prairie Generating Station Rider

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CPGS RIDER EQUITY RETURN (Line 5)

CPGS Rider equity return represents the approved equity return in accordance with the filed Docket No. 20003-114-EP-12.

FEDERAL TAX GROSS-UP FACTOR (Line 7)

The Company's federal tax gross-up factor is based on the federal corporate income tax rate of 35% and is calculated as follows: $1 \div (1 - (.35))$.

FRANCHISE TAX (Line 10)

The Company's franchise tax rate of 1% represents the portion of franchise fees the Company recovers through rates and remits to the respective municipal entities.

CPGS RIDER QUARTERLY CALCULATION

<u>Customer Class</u>	<u>A</u> <u>Demand</u> <u>Allocator</u>	<u>B</u> <u>Revenue</u> <u>Requirement</u> <u>(line11 x col A)</u>	<u>C</u> <u>Balancing</u> <u>Account</u>	<u>D</u> <u>Net Revenue</u> <u>Requirement</u> <u>(col B + C)</u>	<u>E</u> <u>Forecasted</u> <u>kWh Billing</u>	<u>F</u> <u>Quarterly</u> <u>CPGS Rider</u> <u>(col D ÷ E)</u>
<u>Residential</u>	<u>27.67%</u>					
<u>Commercial</u>	<u>5.88%</u>					
<u>Secondary</u> <u>General</u>	<u>35.23%</u>					
<u>Primary</u> <u>General</u>	<u>11.06%</u>					
<u>Industrial</u> <u>Contract</u>	<u>19.56%</u>					
<u>Lighting</u>	<u>0.60%</u>					
<u>Total</u>	<u>100%</u>					

DEMAND ALLOCATOR (Column A)

The demand allocator provides for an assignment of the quarterly revenue requirement to the customer classes based on capacity. The demand allocators by customer class provided were used for the Stipulation and Agreement dated May 24, 2012 and approved in Docket No. 20003-114-ER-11.

BALANCING ACCOUNT (Column C)

This Balancing Account amount is derived by summing the actual quarterly CPGS Rider revenue requirement by customer class results less the actual amount recovered by customer class in the respective quarter through the CPGS Rider. The actual quarterly CPGS Rider revenue requirement will be based on actual construction costs incurred and the actual Labor based effective interest rate plus Black Hills Corporations actual costs for borrowings under the Black Hills Corporation credit revolver dated February 1, 2012. The amount recovered through the CPGS Rider is the sum of the kWh energy

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sales for each month by customer class in the respective quarter multiplied by the effective applicable customer class' CPGS Rider, adjusted for cycle billing pro-rations. These balances by customer class shall be recorded monthly. Due to the timing of the quarterly filings, the balancing account amount will be applied on a one quarter delayed basis. Interest shall accrue monthly on each end of month deferred balance when the balance is negative, or the Company has over collected and money is owed the customer. Interest will not be charged when there is a positive balance, or when the Company has under collected and money is owed the Company. The prior balancing account plus interest, when applicable, then becomes the beginning balancing account for the next month. The monthly interest rate shall be at a rate that is 1/12th of the actual CPGS Rate of Return for the period.

FORECASTED KWH BILLING (Column E)

The Forecasted kWh Billing represents the anticipated kWh billing by customer class for the quarter the CPGS Rider is being calculated.

EFFECTIVE DATE

The CPGS Rider shall be effective for rates on and after November 1, 2012 and updated on a quarterly basis. Each quarter a Cheyenne Prairie Generating Station Rider compliance filing shall be made no later than 30 days prior to the requested effective date for Commission review and audit. Rates are effective on an interim basis and are subject to refund should the Commission find issue with the quarterly rate calculation under this tariff. The rates will be considered permanent 45 days after the effective date, unless extended by Order of the Commission.

The CPGS Rider tariff shall terminate with the effective date of new base rates which include the utility's investment in and costs of the newly completed Cheyenne Prairie Generating Station. Any balance in the balancing account at this time will be collected/(remitted) over the subsequent six months from effective date of new base rates.

INFORMATION TO BE FILED WITH THE COMMISSION

Each quarter Cheyenne Prairie Generating Station Rider compliance filing shall be accompanied by supporting data and documentation necessary to support the actual and forecasted construction costs incurred, kWh billing by customer class, and other numbers that enter into the computation of the requested riders.

[Example Calculations for Illustrative Purposes are provided in Exhibit 2 to the Stipulation and Agreement dated July 13, 2012 for Docket No. 20003-113-EA-11]

Date Issued August 15, 2012

Chris Kilpatrick
Director of Resource Planning and Rates

Date Effective November 1, 2012

Example only for illustrative purposes

Line No.	CPGS Revenue Requirement Calculation	Nov-12	Dec-12	Jan-13	Total
1	Forecasted Monthly Construction Costs	\$ 14,367,070	\$ 1,718,276	\$ 1,313,676	
2	Forecasted Monthly Cumulative Construction Costs	\$ 14,367,070	\$ 16,085,346	\$ 17,399,022	
3	CPGS Rider Rate of Return	6.10%	6.10%	6.10%	
4	CPGS Monthly Return on Costs (Line 2 x Line 3 ÷ 12)	73,033	81,767	88,445	
5	CPGS Rider Equity Return	5.18%	5.18%	5.18%	
6	CPGS Monthly Rider Return on Equity (Line 2 x Line 5 ÷ 12)	62,018	69,435	75,106	
7	Company Tax Gross-up Factor	1.53846	1.53846	1.53846	
8	Equity Return Tax Gross-up Factor (Line 6 x Line 7)	95,412	106,823	115,548	
9	Monthly Revenue Requirement (Line 8+Line 4-Line 6)	106,427	119,155	128,887	
10	Franchise Tax (Line 9 x 1%)	1,064	1,192	1,289	
11	Monthly CP GS Revenue Requirement (Line 9 + Line 10)	\$ 107,491	\$ 120,347	\$ 130,176	\$ 358,014

CPGS Rider Quarterly Calculation

	Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
	Demand Allocator	CPGS Revenue Requirement (Line 11 x col A)	Balancing Account	Net CP GS Revenue Requirement (col B + col C)	Forecasted kWh Billing	Quarterly CP GS Rider per kWh (col D ÷ col E)
17	Customer Class					
18	Residential	27.67%	99,062	99,062	65,620,903	\$ 0.00151
19	Commercial	5.88%	21,051	21,051	11,931,970	\$ 0.00176
20	Secondary General	35.23%	126,128	126,128	91,689,429	\$ 0.00138
21	Primary General	11.06%	39,596	39,596	31,506,025	\$ 0.00126
22	Industrial Contract	19.56%	70,028	70,028	69,747,766	\$ 0.00100
23	Lighting	0.60%	2,148	2,148	1,478,022	\$ 0.00145
24	Totals	100.00%	358,013	358,013	271,974,115	

Example only for illustrative purposes

CPGS Revenue Requirement Calculation (True-up based on Actuals) filed with May 2013 rate

Line No.	CPGS Revenue Requirement Calculation	Actual Nov-12	Actual Dec-12	Actual Jan-13	Total
1	Actual Monthly Construction Costs	\$ 13,678,950	\$ 1,975,600	\$ 1,650,350	
2	Actual Monthly Cumulative Construction Costs	\$ 13,678,950	\$ 15,654,550	\$ 17,304,900	
3	CPGS Rider Actual Rate of Return	6.06%	6.06%	6.06%	
4	CPGS Monthly Actual Return on Costs (Line 2 x Line 3 ÷ 12)	69,079	79,055	87,390	
5	CPGS Rider Equity Return	5.18%	5.18%	5.18%	
6	CPGS Monthly Rider Return on Equity (Line 2 x Line 5 ÷ 12)	59,047	67,575	74,699	
7	Company Tax Gross-up Factor	1.53846	1.53846	1.53846	
8	Equity Return Tax Gross-up Factor (Line 6 x Line 7)	90,841	103,961	114,921	
9	Monthly Revenue Requirement (Line 8+Line 4-Line 6)	100,873	115,441	127,612	
10	Franchise Tax (Line 9 x 1%)	1,009	1,154	1,276	
11	Actual Monthly CP GS Revenue Requirement (Line 9 + Line 10)	\$ 101,882	\$ 116,595	\$ 128,888	\$ 347,365

CPGS Balancing Account Calculation

	Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Customer Class	Demand Allocator	CPGS Revenue Requirement Actual Amount (Line 11 x col A)	Actual Revenue Collected From Customers	Over/(Under) Collected from Customers (col C - col B)	Interest on Over Collection from Customers (col D x (Line 3 ÷ 12))	Balancing Account (col D + col E)
18 Residential	27.67%	96,116	91,260	(4,856)	-	(4,856)
19 Commercial	5.88%	20,425	22,150	1,725	9	1,734
20 Secondary General	35.23%	122,377	115,350	(7,027)	-	(7,027)
21 Primary General	11.06%	38,419	37,000	(1,419)	-	(1,419)
22 Industrial Contract	19.56%	67,945	66,358	(1,587)	-	(1,587)
23 Lighting	0.60%	2,084	1,950	(134)	-	(134)
24 Totals	100.00%	347,366	334,068	(13,298)		(13,289)

26	CPGS Rider Rate of Return (Actual)			
27	Debt Cost (Actual)	46.00%	1.90%	0.87%
28	Equity	54.00%	9.60%	5.18%
29	Total CP GS Rate of Return		6.06%	

Line No.	Month	(a)	(b)	(c)	(d)	(e)	(f)	Monthly AFUDC Revenue at 8.159%
		Generation Costs Incurred	Cumulative Total Forecast	CWIP Rate of Return	$((b) * (c)) \div 12$ Total CWIP Monthly Return on Cash	Equity Return on Cash (Line # 29 Col (b))	$((e) * 1.55562) + (d) - (e)$ Total Revenue Needed after Tax Gross-up	
1	Nov-12	\$ 14,367,070	\$ 14,367,070	6.10%	73,033	62,018	107,491	97,684
2	Dec-12	\$ 1,718,276	16,085,346	6.10%	81,767	69,435	120,347	109,367
3	Jan-13	\$ 1,313,676	17,399,022	6.10%	88,445	75,106	130,175	118,299
4	Feb-13	\$ 4,367,211	21,766,233	6.10%	110,645	93,958	162,850	147,992
5	Mar-13	\$ 4,496,234	26,262,467	6.10%	133,501	113,366	196,489	178,563
6	Apr-13	\$ 7,891,872	34,154,339	6.10%	173,618	147,433	255,535	232,221
7	May-13	\$ 10,021,473	44,175,812	6.10%	224,560	190,692	330,513	300,359
8	Jun-13	\$ 8,892,836	53,068,648	6.10%	269,766	229,080	397,047	360,823
9	Jul-13	\$ 8,913,726	61,982,374	6.10%	315,077	267,557	463,737	421,428
10	Aug-13	\$ 8,670,318	70,652,692	6.10%	359,151	304,984	528,606	480,379
11	Sep-13	\$ 7,982,879	78,635,571	6.10%	399,731	339,444	588,333	534,656
12	Oct-13	\$ 5,404,204	84,039,775	6.10%	427,202	362,772	628,766	571,400
13	Nov-13	\$ 6,075,020	90,114,795	6.10%	458,084	388,996	674,218	612,706
14	Dec-13	\$ 7,126,980	97,241,775	6.10%	494,312	419,760	727,539	661,163
15	Jan-14	\$ 6,835,507	104,077,282	6.10%	529,060	449,267	778,681	707,639
16	Feb-14	\$ 5,598,638	109,675,920	6.10%	557,519	473,434	820,569	745,705
17	Mar-14	\$ 4,873,167	114,549,087	6.10%	582,291	494,470	857,029	778,838
18	Apr-14	\$ 2,921,444	117,470,530	6.10%	597,142	507,081	878,886	798,702
19	May-14	\$ 2,813,222	120,283,752	6.10%	611,442	519,225	899,934	817,829
20	Jun-14	\$ 2,992,259	123,276,011	6.10%	626,653	532,141	922,321	838,174
21	Jul-14	\$ 1,570,540	124,846,551	6.10%	634,637	538,921	934,072	848,853
22	Aug-14	\$ 1,363,306	126,209,857	6.10%	641,567	544,806	944,272	858,122
23	Sep-14	\$ 1,465,640	127,675,497	6.10%	649,017	551,133	955,238	868,087
24		<u>\$ 127,675,497</u>				<u>13,302,648</u>	<u>13,302,648</u>	<u>12,088,989</u>

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26 **CWIP Rate of Return Calculation**

	Rate		
28 Debt	46.00%	2.00%	0.92%
29 Equity	54.00%	9.60%	5.18%
30 Total CWIP Rate of Return			<u>6.10%</u>

**Cheyenne Light Fuel and Power
CPGS Rider - NPV**

Line No		3 Months of 2014	2015	2016	2017	2018	2019	2020
1	Rate Base	12,088,989	11,983,815	11,563,118	11,142,421	10,721,724	10,301,028	9,880,331
2								
3	Interest Expense	84,653	335,667	323,883	312,099	300,316	288,532	276,748
4	Return on Equity	163,201	647,126	624,408	601,691	578,973	556,255	533,538
5								
6	Depreciation Expense	105,174	420,697	420,697	420,697	420,697	420,697	420,697
7								
8	Federal Income Tax Expense	87,884	348,477	336,244	324,010	311,777	299,544	287,310
9								
10	Revenue Requirement	440,913	1,751,967	1,705,232	1,658,497	1,611,762	1,565,028	1,518,293
	Net Present Value of Revenue Requirement 2015-2043		14,859,955					
	CWIP Rider Revenue from Customers		<u>13,302,648</u>					
	Savings to Customers by avoiding AFUDC in Rate Base		<u>1,557,307</u>					
	Discount Rate (CLFP Last Approved ROR)		7.99%					

Black Hills Power - Total Company

Line No.	Month	(a)	(b)	(c)	(d)	(e)	(f)	Monthly AFUDC Revenue at 8.655%
		Generation Costs Incurred	Cumulative Total Forecast	CWIP Rate of Return	$((b) * (c)) \div 12$ Total CWIP Monthly Return on Cash	Equity Return on Cash (Line # 29 Col (b))	$((e) * 1.55562) + (d) - (e)$ Total Revenue Needed after Tax Gross-up	
1	Nov-12	\$ 9,955,930	\$ 9,955,930	6.42%	53,264	45,299	78,433	71,807
2	Dec-12	\$ 682,424	10,638,354	6.42%	56,915	48,405	83,810	76,729
3	Jan-13	\$ 606,024	11,244,378	6.42%	60,157	51,162	88,584	81,100
4	Feb-13	\$ 4,477,239	15,721,617	6.42%	84,111	71,533	123,856	113,392
5	Mar-13	\$ 3,202,362	18,923,979	6.42%	101,243	86,104	149,084	136,489
6	Apr-13	\$ 5,908,528	24,832,507	6.42%	132,854	112,988	195,632	179,104
7	May-13	\$ 7,673,421	32,505,928	6.42%	173,907	147,902	256,084	234,449
8	Jun-13	\$ 6,985,615	39,491,543	6.42%	211,280	179,687	311,117	284,833
9	Jul-13	\$ 6,689,374	46,180,917	6.42%	247,068	210,123	363,816	333,080
10	Aug-13	\$ 6,289,172	52,470,089	6.42%	280,715	238,739	413,363	378,441
11	Sep-13	\$ 6,502,063	58,972,152	6.42%	315,501	268,323	464,587	425,337
12	Oct-13	\$ 3,968,264	62,940,416	6.42%	336,731	286,379	495,849	453,958
13	Nov-13	\$ 4,285,980	67,226,396	6.42%	359,661	305,880	529,614	484,870
14	Dec-13	\$ 3,570,027	70,796,423	6.42%	378,761	322,124	557,739	510,619
15	Jan-14	\$ 4,855,355	75,651,778	6.42%	404,737	344,216	595,990	545,638
16	Feb-14	\$ 4,816,262	80,468,040	6.42%	430,504	366,130	633,933	580,376
17	Mar-14	\$ 4,182,313	84,650,353	6.42%	452,879	385,159	666,881	610,541
18	Apr-14	\$ 2,406,267	87,056,621	6.42%	465,753	396,108	685,838	627,896
19	May-14	\$ 2,430,598	89,487,219	6.42%	478,757	407,167	704,987	645,427
20	Jun-14	\$ 2,475,211	91,962,430	6.42%	491,999	418,429	724,487	663,279
21	Jul-14	\$ 1,437,960	93,400,390	6.42%	499,692	424,972	735,815	673,650
22	Aug-14	\$ 1,010,589	94,410,979	6.42%	505,099	429,570	743,776	680,939
23	Sep-14	\$ 1,027,860	95,438,839	6.42%	510,598	434,247	751,874	688,353
24		<u>\$ 95,438,839</u>					<u>10,355,149</u>	<u>9,480,307</u>

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26 **CWIP Rate of Return Calculation**

	Rate		
28 Debt	48.00%	2.00%	0.96%
29 Equity	52.00%	10.50%	<u>5.46%</u>
30 Total CWIP Rate of Return			<u>6.42%</u>

Line No		3 Months of 2014	2015	2016	2017	2018	2019	2020
1	Rate Base	9,480,307	9,397,828	9,067,913	8,737,999	8,408,084	8,078,169	7,748,255
2								
3	Interest Expense	73,709	292,272	282,012	271,752	261,491	251,231	240,971
4	Return on Equity	129,406	513,121	495,108	477,095	459,081	441,068	423,055
5								
6	Depreciation Expense	82,479	329,915	329,915	329,915	329,915	329,915	329,915
7								
8	Federal Income Tax Expense	69,685	276,316	266,616	256,916	247,215	237,515	227,815
9								
10	Revenue Requirement	355,279	1,411,624	1,373,651	1,335,677	1,297,703	1,259,729	1,221,755
	Net Present Value of Revenue Requirement 2015-2043		11,443,990					
	CWIP Rider Revenue from Customers		10,355,149					
	Savings to Customers by avoiding AFUDC in Rate Base		1,088,841					
	Discount Rate (BHP Last Approved ROR)		8.57%					