

Rebuttal Testimony
Christopher J. Kilpatrick

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

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

For Authority to Increase Rates
In South Dakota

Docket No. EL14-026

January 15, 2015

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1 **I. INTRODUCTION**

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

3 A. My name is Christopher J. Kilpatrick. My business address is 625 Ninth Street,
4 P.O. Box 1400, Rapid City, South Dakota 57701.

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

6 A. I am currently employed by Black Hills Utility Holdings, Inc. (“Utility
7 Holdings”), a wholly-owned subsidiary of Black Hills Corporation (“BHC”), as
8 the Director of Regulatory.

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

11 A. I am testifying on behalf of Black Hills Power, Inc., (“Black Hills Power” or the
12 “Company”).

13 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?**

14 A. Yes.

15 **II. PURPOSE OF REBUTTAL TESTIMONY**

16 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

17 A. The purpose of my rebuttal testimony is to explain and support the portion of the
18 Settlement Stipulation (“Settlement Agreement”), reached between Black Hills
19 Power and the South Dakota Public Utilities Commission Staff (“Staff”), that
20 pertains to corporate allocations. I also explain why the positions advanced by
21 Black Hills Industrial Intervenors’ (“BHII”) witness Mr. Lane Kollen on this
22 subject are not appropriate.

1 **III. UTILITY HOLDINGS ADJUSTMENT**

2 **Q. DOES BLACK HILLS POWER RECEIVE SERVICES FROM OTHER**
3 **CORPORATE ENTITIES WITHIN THE BHC CORPORATE**
4 **ORGANIZATION?**

5 A. Yes. The Company receives services from Black Hills Service Company
6 (“Service Company”) and Utility Holdings, which are subsidiaries of BHC.

7 **Q. DID YOU DISCUSS GENERALLY HOW CORPORATE ALLOCATIONS**
8 **FROM THESE TWO ENTITIES ARE MADE TO BLACK HILLS POWER**
9 **IN YOUR DIRECT TESTIMONY?**

10 A. Yes, I addressed this topic on pages 18-20 of my direct testimony.

11 **Q. PLEASE EXPLAIN THE UTILITY HOLDINGS ADJUSTMENT THAT**
12 **WAS INCLUDED IN BLACK HILLS POWER’S RATE CASE**
13 **APPLICATION.**

14 A. Black Hills Power’s filed position requested recovery of the estimated corporate
15 costs charged to it from Utility Holdings after the Cheyenne Prairie Generating
16 Station was placed in service on October 1, 2014. The request reflected the pro
17 forma time period of October 1, 2014, through September 30, 2015.

18 **Q. WAS THE COMPANY’S AS FILED UTILITY HOLDINGS ADJUSTMENT**
19 **INCLUDED AS A COMPONENT OF THE SETTLEMENT AGREEMENT?**

20 A. No. Black Hills Power reached a compromise with Staff that resulted in inclusion
21 in the Settlement Agreement of actual Utility Holdings charges to Black Hills
22 Power from September 2013 through August 2014, with two modifications. First,

1 the adjusted customer records and collection expense included in the Settlement
2 reflects an annualized known change in allocation that went into effect on April 1,
3 2014. Second, the September 2013 through August 2014 labor costs were
4 annualized to reflect the 2014 and 2015 wage increases.

5 **Q. DOES THE UTILITY HOLDINGS ADJUSTMENT INCLUDED IN THE**
6 **SETTLEMENT AGREEMENT REFLECT CURRENT COSTS AND**
7 **KNOWN AND MEASURABLE CHANGES?**

8 A. Yes. The September 2013 through August 2014 billings from Utility Holdings are
9 actual costs that are accurate, reliable, and verifiable. The change in customer
10 records and collection expense allocation went into effect in April 2014, and has
11 been annualized by applying the allocation change to the historic department costs
12 from September 2013 through August 2014. In addition, the September 2013
13 through August 2014 labor costs have been annualized to reflect known salary
14 increases that were effective after the end of the historic test year. Accordingly,
15 the settlement adjustment reflects known and measurable changes.

16 **Q. PLEASE EXPLAIN THE ALLOCATION CHANGE TO THE CUSTOMER**
17 **RECORDS AND COLLECTION EXPENSE.**

18 A. During the historic test year, costs from the customer service call centers that serve
19 all BHC owned utilities were charged to Black Hills Power using direct and
20 allocated charges. In early 2014, Utility Holdings reviewed the call volumes and
21 call minutes from the call centers to determine if costs were being charged to the
22 appropriate companies. The expenses incurred by these call centers are primarily

1 related to the support of all utility customers. Based on the total call volume and
2 total call minutes, it was determined that the cost driver for these costs is the
3 number of customers. Therefore, the costs should be allocated based upon the
4 Customer Count Ratio. This change in allocation is annualized in the Settlement
5 Agreement.

6 **Q. MR. KOLLEN PROPOSED AS AN ALTERNATIVE TO THE SETTLED**
7 **TREATMENT OF THIS ADJUSTMENT THAT THE COMPANY ONLY**
8 **BE PERMITTED TO RECOVER THE COSTS INCURRED DURING THE**
9 **HISTORIC TEST YEAR WITH NO ADJUSTMENT. DO YOU AGREE**
10 **WITH MR. KOLLEN'S PROPOSED ADJUSTMENT TO UTILITY**
11 **HOLDINGS COSTS?**

12 A. No. Mr. Kollen's proposed adjustment is flawed because the October 2012
13 through September 2013 Utility Holdings costs do not reflect current operations
14 costs or any known and measurable increases that have occurred since the end of
15 the test year.

16 **Q. IN HIS TESTIMONY, MR. KOLLEN IS CRITICAL OF THE**
17 **INFORMATION THE COMPANY SUPPLIED TO SUPPORT**
18 **CORPORATE ALLOCATIONS. DID THE COMPANY PROVIDE**
19 **EVIDENCE OF KNOWN AND MEASURABLE CHANGES?**

20 A. Yes. The Company provided a description of some of the major cost drivers in the
21 Utility Holdings budgeted increase in the Supplemental Response to BHII Request
22 6. In the Supplemental Response to SDPUC Request 3-96 provided on October

1 22, 2014, the Company also provided the actual costs from September 2013
2 through August 2014 with supporting work papers.

3 **Q. HAVE THE EMAILS REFERENCED IN MR. KOLLEN'S DIRECT**
4 **TESTIMONY ON PAGE 39, LINES 6 – 9, BEEN PRODUCED IN**
5 **DISCOVERY?**

6 A. Yes, the Company provided the email responses to Staff's informal discovery and
7 the associated attachments in the Second Supplemental Response to SDPUC
8 Request 3-96, on January 5, 2015. The emails contained the monthly Utility
9 Holdings charges by FERC account from the general ledger for September 2013
10 through August 2014, a revised calculation of the customer records and collection
11 expense allocation annualization, and the supporting work paper for the labor
12 annualization. Notably, the information reflected in the emails is virtually
13 identical to the information that was produced in October 2014 in the
14 Supplemental Response to SDPUC Request 3-96.

15 **Q. WAS MR. KOLLEN ALSO CRITICAL OF SOME OF THE COST**
16 **INCREASES THAT ARE REFLECTED IN THE SETTLEMENT**
17 **ADJUSTMENT?**

18 A. Yes, he was critical of the cost increases to FERC Account 920, administrative
19 salaries, and to FERC account 923, outside services.

20 **Q. PLEASE EXPLAIN THE COST DRIVERS THAT INCREASED THE**
21 **UTILITY HOLDING CHARGES TO FERC ACCOUNT 920,**
22 **ADMINISTRATIVE SALARIES, FROM THE TEST YEAR.**

1 A. The increase in administrative salaries is associated with an increase in headcount
 2 at Utility Holdings and the wage annualization that is reflected in the cost update.
 3 The headcount at Utility Holdings as of 9/30/2013 was 376, and increased to 389
 4 as of 8/31/2014. The costs associated with the increased headcount were allocated
 5 consistent with the Utility Holdings Cost Allocation Manual. In addition, the
 6 update to the most recent twelve months of actual costs from October 2012
 7 through September 2013 and for the period September 2013 through August 2014
 8 contained a partial wage increase for 2013 and 2014.

9 **Q. PLEASE EXPLAIN THE CHANGE IN UTILITY HOLDING CHARGES**
 10 **TO FERC ACCOUNT 923, OUTSIDE SERVICES, FROM THE TEST**
 11 **YEAR.**

12 A. The increase in outside services appears high because the test year expense was
 13 abnormally low. Please see below for the outside service expense charged to
 14 Black Hills Power from Utility Holdings from October 2010 through August 2014.

Account	10/1/10-9/30/11	10/1/11-9/30/12	10/1/12-9/30/13	9/1/13-8/31/14
923 - Outside Services	\$337,588	\$365,339	\$270,757	\$426,566

15
 16 If the test year expense is ignored from the four year period, the expense is
 17 trending in a predictable manner and the most recent annual expense appears
 18 reasonable.

19 **Q. DO YOU AGREE WITH MR. KOLLEN’S CRITICISM OF THE**
 20 **TREATMENT OF THE COSTS IN THESE TWO FERC ACCOUNTS?**

1 A. No. As indicated above, the costs that are reflected in FERC accounts 920 and
2 923 are appropriately adjusted to the Company's most recent actual costs, which
3 are reflective of costs going forward.

4 **Q. ALSO IN HIS UTILITY HOLDINGS ADJUSTMENT TESTIMONY, MR.**
5 **KOLLEN INDICATED THAT THE STAFF REVENUE REQUIREMENT**
6 **MODEL INCLUDES AN ERROR IN ALLOCATION TO SOUTH**
7 **DAKOTA FOR TRANSMISSION LOAD DISPATCH COSTS. DOES THE**
8 **COMPANY AGREE THAT AN ERROR WAS MADE?**

9 A. Yes, please refer to the rebuttal testimony of Jon Thurber for the Company's
10 proposed treatment of the error.

11 **Q. SHOULD THE COMMISSION ADOPT THE SETTLEMENT**
12 **ADJUSTMENT FOR UTILITY HOLDINGS COSTS?**

13 A. Yes, the adjustment reflects costs and operational changes known at the time of
14 the Settlement Agreement. In addition, the inclusion of the most recent twelve
15 months of actual expenses adjusted for known and measurable changes is
16 consistent with the treatment of corporate costs included in past Commission
17 approved rate case settlements for Black Hills Power and other utilities in South
18 Dakota.

19 **IV. SERVICE COMPANY ADJUSTMENT**

20 **Q. DID BLACK HILLS POWER INCLUDE A SERVICE COMPANY**
21 **ADJUSTMENT IN ITS APPLICATION?**

1 A. No. Black Hills Power's filed position requested recovery of Service Company
2 costs that were allocated during the historic test year.

3 **Q. DID THE COMPANY SUBSEQUENTLY PROPOSE AN ADJUSTMENT**
4 **TO SERVICE COMPANY COSTS IN THIS DOCKET?**

5 A. Yes. On October 22, 2014, in its Supplemental Response to SDPUC Request 3-
6 96, the Company indicated that it would propose an adjustment in rebuttal
7 testimony for the corporate costs charged to Black Hills Power from Service
8 Company. In particular, Black Hills Power indicated it would seek to reflect the
9 actual Service Company billings from September 2013 through August 2014 for
10 all accounts except for property insurance expense. The pro forma property
11 insurance expense was separately addressed because it reflects the actual expense
12 for October 2014 through September 2015.

13 **Q. DOES THE SETTLEMENT AGREEMENT INCLUDE THIS SERVICE**
14 **COMPANY ADJUSTMENT?**

15 A. Yes. In addition, the Settlement Agreement also annualizes the Service Company
16 September 2013 through August 2014 labor costs to reflect the 2014 and 2015
17 wage increases.

18 **Q. DOES THE SERVICE COMPANY ADJUSTMENT INCLUDED IN THE**
19 **SETTLEMENT REFLECT A KNOWN AND MEASURABLE CHANGE?**

20 A. Yes. The September 2013 through August 2014 billings from Service Company
21 are actual costs that are accurate, reliable, and verifiable. The property insurance
22 for October 2014 through September 2015 was paid in October 2014, reflects the

1 property insurance for the Cheyenne Prairie Generating Station, and removes the
2 property insurance associated with Ben French, Osage, and Neil Simpson I. In
3 addition, the September 2013 through August 2014 labor costs have been
4 annualized to reflect known salary increases that were effective after the end of the
5 historic test year.

6 **Q. MR. KOLLEN PROPOSED AS AN ALTERNATIVE TO THE SETTLED**
7 **TREATMENT OF THIS ADJUSTMENT THAT THE COMPANY ONLY**
8 **BE PERMITTED TO RECOVER THE COSTS INCURRED DURING THE**
9 **HISTORIC TEST YEAR WITH NO ADJUSTMENT. DO YOU AGREE**
10 **WITH MR. KOLLEN'S PROPOSED ADJUSTMENT TO SERVICE**
11 **COMPANY COSTS?**

12 A. No. The test year Service Company costs do not reflect current operations or any
13 known and measurable increases that have occurred since the end of the test year.

14 **Q. IN HIS TESTIMONY, MR. KOLLEN IS ALSO CRITICAL OF THE**
15 **INFORMATION THE COMPANY SUPPLIED TO SUPPORT SERVICE**
16 **COMPANY COSTS. DID THE COMPANY PROVIDE ANY EVIDENCE**
17 **OF KNOWN AND MEASURABLE CHANGES?**

18 A. Yes. In the Supplemental Response to SDPUC Request 3-96, the Company
19 provided the actual costs from September 2013 through August 2014 with
20 supporting work papers.

1 **Q. HAVE THE EMAILS REFERENCED IN MR. KOLLEN'S DIRECT**
2 **TESTIMONY BEGINNING ON PAGE 40, LINE 20, THROUGH PAGE 41,**
3 **LINE 1, BEEN PRODUCED IN DISCOVERY?**

4 A. Yes. The Company provided the email responses to Staff's informal discovery
5 and the associated attachments in the Second Supplemental Response to SDPUC
6 Request 3-96, on January 5, 2015. The emails contained the monthly Service
7 Company charges by FERC account from the general ledger for September 2013
8 through August 2014, and the supporting work paper for the labor annualization.
9 Notably, the information reflected in the emails is identical to the information that
10 was produced in October 2014 in the Supplemental Response to SDPUC Request
11 3-96.

12 **Q. WAS MR. KOLLEN CRITICAL OF ANY OF THE COSTS CONTAINED**
13 **IN THE SERVICE COMPANY ADJUSTMENT?**

14 A. Yes, Mr. Kollen was critical of the cost increases to FERC Account 920,
15 administrative salaries, and to FERC account 921, office supplies and expenses.

16 **Q. PLEASE EXPLAIN THE COST DRIVERS THAT INCREASED THE**
17 **SERVICE COMPANY CHARGES IN FERC ACCOUNT 920,**
18 **ADMINISTRATIVE SALARIES, FROM THE TEST YEAR.**

19 A. The increase in administrative salaries is associated with an increase in headcount
20 at Service Company and the wage annualization that is reflected in the cost update.
21 The average headcount during the historic test year at Service Company was
22 approximately 367, and the average headcount during the September 2013 through

1 August 2014 was approximately 378. The costs associated with the increased
 2 headcount were allocated consistent with the Service Company Cost Allocation
 3 Manual. In addition, the update to the most recent twelve months of actual costs
 4 from October 2012 through September 2013 and for the period September 2013
 5 through August 2014 contained a partial wage increase for 2013 and 2014.

6 **Q. PLEASE PROVIDE AN EXPLANATION FOR THE INCREASE IN**
 7 **SERVICE COMPANY CHARGES TO FERC ACCOUNT 921, OFFICE**
 8 **SUPPLIES AND EXPENSES, FROM THE TEST YEAR.**

9 A. The increase in office supplies appears high because the test year expense was
 10 abnormally low. Please see below for the office supplies and expenses charged to
 11 Black Hills Power from Service Company from October 2010 through August
 12 2014.

Account	10/1/10-9/30/11	10/1/11-9/30/12	10/1/12-9/30/13	9/1/13-8/31/14
921 - Office Supplies	2,329,590	2,213,036	2,199,768	2,456,138

13
 14 Using the office supplies expense from October 2010 through September 2011 as
 15 the baseline, the actual September 2013 through August 2014 expense reflects less
 16 than 2% annual inflation. The most recent twelve month of office supplies
 17 charged by Service Company is a reasonable reflection of costs going forward.

18 **Q. DO YOU AGREE WITH MR. KOLLEN'S CRITICISM OF THE**
 19 **TREATMENT OF THE COSTS IN THESE TWO FERC ACCOUNTS?**

1 A. No. As indicated above, the costs that are reflected in FERC accounts 920 and
2 921 are appropriately adjusted to the Company's most recent actual costs, which
3 are reflective of costs going forward.

4 **Q. PLEASE EXPLAIN WHY THE COMMISSION SHOULD ADOPT THE**
5 **SERVICE COMPANY ADJUSTMENT REFLECTED IN THE**
6 **SETTLEMENT AGREEMENT.**

7 A. The most recent twelve months of actual Service Company expenses adjusted for
8 known and measurable changes reflects current costs and operational changes at
9 the time of the Settlement Agreement. In addition, the adjustment is consistent
10 with corporate cost treatment in past Commission approved rate case settlements
11 for Black Hills Power and other utilities in South Dakota.

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

13 A. Yes, it does.