

Exhibit 1  
Direct Testimony  
Kyle D. White

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

In the Matter of the Application of Black Hills Power, Inc d/b/a Black Hills Energy for Approval  
of its Tax Cut and Jobs Act Proposal

Docket No. EL18-\_\_\_\_

June 29, 2018

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**Attachments**

Attachment KDW-1 Order dated December 29, 2017

Attachment KDW-2 Workpaper supporting the proposed credit rates for the one-time  
2018 credit

**I. INTRODUCTION AND QUALIFICATIONS**

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

A. My name is Kyle D. White. My business address is 7001 Mount Rushmore Rd., Rapid City, South Dakota 57702.

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

A. I am employed by Black Hills Utility Holdings, Inc. (“BHUH”), a direct, wholly-owned subsidiary of Black Hills Corporation (“BHC”), as Vice President of Regulatory Strategy. My areas of responsibility include providing strategy, regulatory, and business support for all regulated subsidiaries of BHC.

**Q. FOR WHOM ARE YOU TESTIFYING ON BEHALF OF TODAY?**

A. I am testifying on behalf of Black Hills Power, Inc. d/b/a Black Hills Energy (“Black Hills” or the “Company”).

**Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS BACKGROUND.**

A. I graduated with honors from the University of South Dakota in May of 1982 with a Bachelor of Science degree in Business Administration, majoring in management. In August of 1989, I graduated with a Master’s degree in Business Administration, also from the University of South Dakota. I have been employed by Black Hills in rates, resource planning, and marketing related roles since July of 1982 and have been in my present role since August of 2016. During my career, I have been actively involved in preparing applications, testifying and receiving regulatory approvals related to numerous rate reviews, changes in rules or regulations, and requests for certificates of public convenience and necessity for both electric generation and transmission assets. I have also led successful efforts to achieve regulatory approvals for utility acquisitions in six

(6) states. In addition to on-the-job training, I have attended numerous seminars, trade association meetings, and regulatory conferences covering a variety of utility-related subjects.

## **II. PURPOSE OF TESTIMONY**

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

A. The purpose of my direct testimony is to introduce and support the Company's proposal to satisfy the Commission order issued in Docket No. GE17-003, which provides South Dakota retail customers lower utility costs due to the passage of the Tax Cut and Jobs Act (the "TCJA")<sup>1</sup>.

## **III. TAX CUTS AND JOBS ACT**

### **Q. WHAT IS THE TCJA?**

A. The TCJA, which President Trump signed into law on December 22, 2017, is the first major reform of the federal tax code in over 30 years. It includes specific provisions for corporations and, in particular, investor-owned public utilities. The TCJA impacts Black Hills' cost of providing utility services for customers in two distinct areas: 1) the reduction in the Federal Corporate Income Tax Rate ("FIT Rate") from 35 percent to 21 percent; 2) the accounting and rate treatment of Excess Deferred Federal Income Tax ("EDFIT") as of December 31, 2017, subject to normalization rules.

### **Q. PLEASE FURTHER EXPLAIN THE TWO DISTINCT AREAS OF THE TCJA THAT IMPACT BLACK HILLS' COST OF PROVIDING UTILITY SERVICE.**

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<sup>1</sup> Public Law No. 115-97, an Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, is a congressional revenue act originally introduced in Congress as the Tax Cuts and Jobs Act.

A. The most significant change is the reduction in the FIT Rate from 35% to 21%. In passing the TCJA, Congress stated its purpose as stimulating business investment and growing the economy. A reduction in the cost of providing utility service helps achieve these objectives. As previously mentioned, TCJA provides customer benefits in two distinct ways: 1) the reduction in the FIT Rate lowers Black Hills' annual South Dakota retail cost of providing service by approximately \$7.6 million and 2) the reduction in the FIT Rate also creates EDFIT as of December 31, 2017. The majority of the EDFIT is subject to normalization rules ("Protected EDFIT") and must be recorded over time utilizing the Average Rate Assumption Method ("ARAM"). The amount of Protected EDFIT for 2018, calculated utilizing ARAM, is estimated to provide Black Hills' South Dakota retail customers a \$1.3 million benefit. The Black Hills' EDFIT not subject to the normalization rules ("Non-Protected EDFIT") is classified as a regulatory asset, meaning it is recoverable from customers. The estimated Black Hills South Dakota Non-Protected EDFIT for full amortization in 2018 is also approximately \$1.3 million. Both the Protected and Non-Protected EDFIT numbers are estimates.

**Q. HAS THE COMMISSION OPENED AN INVESTIGATION REGARDING THE EFFECT OF THE TCJA ON SOUTH DAKOTA UTILITIES?**

A. Yes. On December 21, 2017 Commission Staff filed a request with the Commission to open a docket to investigate the TCJA effect on South Dakota utilities, and on December 29, 2017 the Commission issued an order in Docket No. GE17-003 setting forth certain requirements for South Dakota regulated utilities.

**Q. HAS A COPY OF THE COMMISSION'S ORDER BEEN INCLUDED WITH YOUR TESTIMONY?**

A. Yes. It is Attachment KDW-1.

**Q. SPECIFICALLY, WHAT DID THE COMMISSION FIND?**

A. Quoting from the Order:

ORDERED, that BHP, MidAmerican, MDU, NorthWestern, OTP, and Xcel shall file initial comments by February 1, 2018, regarding the general effects of the Act on the utility's cost of service in South Dakota and possible mechanisms for adjusting rates. It is further

ORDERED, that BHP, MidAmerican, MDU, NorthWestern, OTP, and Xcel shall file additional comments including more specific proposals and impacts and shall work with Staff to determine a deadline for additional comments. The comments shall, at a minimum, address: 1) an estimate of the company's determination of the Act's effects on its South Dakota cost of service, inclusive of all elements; 2) include an explanation of these effects, and 3) propose a procedure for changing the company's rates to reflect these impacts. Each utility shall file separate comments for electric and natural gas, if applicable. It is further

ORDERED, that all rates impacted by the federal income tax, not limited to base rates, shall be adjusted effective January 1, 2018, and are subject to refund or any other ratemaking treatment which ensures ratepayers receive the benefits of the tax changes as of January 1, 2018, pending a determination of the impact of the Act.

**Q. DID BLACK HILLS FILE INITIAL COMMENTS BY FEBRUARY 1, 2018?**

A. Yes.

**Q. IS THIS APPLICATION RESPONSIVE TO THE COMMISSION'S ORDER REQUIRING ADDITIONAL COMMENTS, INCLUDING MORE SPECIFIC PROPOSALS AND IMPACTS?**

A. Yes. In addition, as stipulated in Dockets EL17-006 and EL17-008, Black Hills agreed with Staff as follows:

“1. Tax Cuts and Jobs Act (“TCJA”)

In response to the Commission’s Decision and Order in Docket No. GE17-003, the parties agree that prior to July 1, 2018, Black Hills Power shall file a comprehensive proposal for addressing the customer rate impacts of the TCJA, including but not limited to, how base rates will be revised due to the change in the corporate tax rate from 35 percent to 21 percent and how to address the amortization of excess accumulated deferred income taxes. The supporting calculations for the Company’s proposal shall be based upon the information used to develop the current base rates that were approved by the Commission in Docket No. EL14-026.”

**IV. BLACK HILLS' PROPOSAL**

**Q. WHAT IS BLACK HILLS' PROPOSAL TO ENSURE THAT CUSTOMERS RECEIVE THE BENEFIT OF THE TAX LAW CHANGES, AS REQUIRED BY THE COMMISSION'S ORDER IN DOCKET GE-003?**

A. Black Hills proposes the following to address the changes resulting from the passage of TCJA:

- That a 2018 TCJA tax expense benefit of \$7,671,339 be distributed to its South Dakota retail customers as a one-time bill credit in October of 2018. The proposed method for distributing this benefit is to implement a credit per kWh applicable to customers' October billings. Mr. Mike Clevinger, Manager - Revenue Requirement, provides direct testimony regarding the changes to the revenue requirement established in Black Hills' last rate case (Docket No. EL14-026) that result from the reduction of the FIT Rate.
- That base rates be revised effective January 1, 2019, such that the expected revenues as compared to the revenue requirement approved by the Commission in

the last rate case (Docket No. EL14-026) are annually reduced by approximately<sup>2</sup> \$8.9 million (). Ms. Lee Watkins, Vice President - Tax, provides direct testimony on how TCJA impacts Black Hills.

- That customer charges be adjusted to address known intra customer class cost recovery deficiencies. Mr. Charlie Gray, Manager - Regulatory, discusses this current cost recovery and rate design situation in his direct testimony. He also discusses and supports the Company's proposal to revise its base rates.

**Q. HOW DID THE COMPANY CALCULATE THE CREDIT RATE PER KWH IT IS PROPOSING BE APPLIED TO OCTOBER 2018 BILLINGS?**

- A. First, the Company determined the appropriate revenue requirement reduction, which, as described in Mr. Clevinger's direct testimony is \$7,671,339. This dollar amount was then allocated to each South Dakota retail customer class, based upon each class's share of the base rate revenue requirement established in Docket EL14-026. Once the credit amount was distributed to the customer classes, the next step was to forecast October 2018 kWh billings for each class to determine the rate to be applied. The rate for each customer class is then simply the allocated credit divided by the forecasted kWh expected to be billed in October for the customer class. Attachment KDW-2 is the workpaper supporting the proposed credit rates for the one-time 2018 credit.

**Q. PLEASE BRIEFLY PROVIDE ADDITIONAL BACKGROUND IN SUPPORT OF BLACK HILLS' PROPOSAL.**

- A. The Company's proposal is split between refunding the expected TCJA benefits related to 2018 and permanent changes to base rates beginning January 1, 2019.

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<sup>2</sup> As discussed in the Direct Testimony of Ms. Lee Watkins, the final amount will be determined once the Company's 2017 federal income tax return has been completed and filed later this year.



As mentioned, beginning in 2018 the Company is experiencing in South Dakota an approximate \$7.6 million reduction to its revenue requirement due to the lower FIT Rate. This value is based upon the cost of service utilized to set base rates from the Company's last formal rate case (Docket No. EL14-026). The Company's proposal is to credit Black Hills' South Dakota retail customers in October the approximately \$7.6 million tax expense reduction expected for calendar year 2018. In order to accomplish this in October, Black Hills will need the Commission's approval to implement this part of its plan prior to September 15, 2018.

Also, as a result of the TCJA, Accumulated Deferred Income Taxes ("ADITs") were reduced due to the lower FIT Rate. These reductions are reflected in the Company's proposal to permanently adjust base rates, effective January 1, 2019. The reduction to ADIT is referred to as EDFIT. For 2018, the protected EDFIT and the proposed one-year amortization of the Non-Protected EDFIT are expected to materially offset each other. For this reason, an ADIT/EDFIT adjustment is not included in the Company's proposal for the one-time 2018 credit.

Once the 2018 adjustments (full amortization of the Non-Protected EDFIT) are complete, the Company is anticipating an additional \$1,300,000 of annual EDFIT benefits for South Dakota, in addition to the \$7.6 million direct customer benefit from the lowering of the FIT Rate from 35% to 21%. This EDFIT amount is an estimate and, due to tax normalization rules, will need to become an actual known amount prior to base rates being reduced on January 1, 2019. Black Hills intends to amend its filing to reduce and revise its base rates once the EDFIT amount is known and currently expects this to occur in November. The second part of the Company's proposal is to make revisions to

its base rates that will reduce its expected annual revenue by approximately \$8.9 million (tax expense plus EDFIT) beginning January 1, 2019. In order to meet the January 1, 2019 planned effective date for revising base rates, the Company will need a decision from the Commission on this part of its proposal by December 15, 2018.

**V. CONCLUSION**

**Q. DOES THE COMPANY'S PROPOSAL SET FORTH IN THIS APPLICATION MEET THE COMMISSION'S EXPRESSED OBJECTIVE AND ORDER IN GE17-003?**

A. Yes. The TCJA customer benefits are substantial, and in fact, the proposed base rate reduction exceeds the most recent Commission approved base rate increase of \$6,890,746 in 2014 (Docket No. EL14-026). The Company's two part approach will give South Dakota retail customers both an October "bonus" and a New Year's rate reduction.

**Q: DOES THE COMPANY'S PROPOSAL SATISFY BLACK HILLS' STIPULATED OBLIGATION IN DOCKET NO. EL17-006 AND DOCKET NO. EL17-008?**

A. Yes, it does.

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

A. Yes.

