

EXHIBIT C

TESTIMONY OF CHRIS KILPATRICK

Direct 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 Approval of Energy Efficiency Programs, Tariff and Cost Recovery
Mechanism in South Dakota

January 26, 2011

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1 I. INTRODUCTION & QUALIFICATIONS

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

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

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

6 **A:** I am employed by Black Hills Corporation as Director of Rates.

7 **Q: FOR WHOM ARE YOU TESTIFYING ON BEHALF TODAY?**

8 **A:** I am testifying on behalf of Black Hills Power, Inc. (“Black Hills Power”).

9 **Q: PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS**
10 **BACKGROUND.**

11 **A:** I am a graduate of Mount Marty College in Yankton, South Dakota, with a
12 Bachelor of Arts Degree in Accounting. I’m a Certified Public Accountant
13 (“CPA”), a member of the American Institute of Certified Public Accounts and
14 the South Dakota CPA Society. My work experience includes working for two
15 public accounting firms from 1994 through 1999. The first was Wohlenberg,
16 Ritzman, and Co. located in Yankton, South Dakota, and the second was Ketel
17 Thorstenson, LLP located in Rapid City, South Dakota. I began my career with
18 Black Hills in January 2000 in the internal audit department. In August of 2003 I
19 became the controller of Black Hills FiberCom until February 2005 when I
20 accepted the position of Director of Accounting – Retail Operations. In August
21 2008, I was hired as the Director of Rates and am currently performing those
22 duties.

1 **Q: BRIEFLY DEFINE YOUR DUTIES AND RESPONSIBILITIES.**

2 **A:** I am responsible for the electric rates and regulatory matters and the
3 regulatory financial reporting for Black Hills Corporation’s electric utility
4 subsidiaries. I review financial information and verify that the financial reporting
5 for each subsidiary is accurate and in accordance with the rules and regulations of
6 the Federal Energy Regulatory Commission (“FERC”).

7 **II. PURPOSE OF TESTIMONY**

8 **Q: WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

9 **A:** The purpose of my direct testimony is to support and explain the Energy
10 Efficiency Solutions (EES) adjustment rate, including both the program cost and
11 margin recovery components, and the related tariff. The EES Tariff sheet is
12 attached as Appendix B to the Application of Black Hills Power, Inc. for
13 Approval of Energy Efficiency Programs, Tariff, and Cost Recovery Mechanism
14 dated January 26, 2011. The Application includes the Company’s EES Plan at
15 Appendix A.

16 **III. EES COST RECOVERY MECHANISM**

17 **Q: WHY IS THE COMPANY PROPOSING A COST RECOVERY**
18 **MECHANISM?**

19 **A.** The Company is proposing a recovery mechanism to recover from its
20 customers the costs that the Company will incur with the implementation of the
21 EES Plan. In many states, cost recovery of EES program costs are authorized by
22 statute or administrative rules. In South Dakota, Black Hills Power looked to the
23 South Dakota Public Utilities Commission’s (“Commission”) approval of the cost
24 recovery mechanisms of Otter Tail Power Company and MidAmerica Energy. In

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23 South Dakota Public Utilities Commission's ("Commission") approval of the cost
24 recovery mechanisms of Otter Tail Power Company and MidAmerica Energy. In

1 addition, insights obtained through the Commission's June 23, 2010 Energy
2 Efficiency Workshop, and subsequent Commission Staff work group sessions
3 have been incorporated in the proposed recovery mechanism. The cost recovery
4 mechanism contained in the EES Tariff sheet is designed to recover Energy
5 Efficiency Solutions Plan development and program costs as well as lost margins
6 as a means to align Black Hill Power's interests with energy efficiency objectives.

7 **Q. PLEASE DESCRIBE THE COST RECOVERY MECHANISM**
8 **CALCULATION.**

9 **A.** The EES adjustment rate was determined by dividing the three year EES
10 Plan's development, program and lost margin costs by the three year kWh volume
11 forecasts by customer class. The development costs represent consulting
12 expenses incurred by Black Hills Power to create the EES Plan. These costs are
13 integral to the development of the programs and were allocated to the residential
14 and non-residential customer classes based on the respective EES program
15 budgets. The EES Plan's program costs are the three year program budgets to
16 execute the plan, including administration, delivery, marketing, and incentives
17 costs. Thirty percent of the EES program costs represent the lost margin costs the
18 Company is seeking for recovery. Attachment 1 to this testimony provides the
19 detailed calculation of the residential and non-residential Energy Efficiency
20 Solutions Adjustment rates along with residential customer bill impacts.

21 **Q: WHY IS THIRTY PERCENT OF PROGRAM COSTS USED FOR**
22 **LOST MARGIN RECOVERY?**

23 **A:** Based on the three year EES Plan forecasts and the anticipated timing of
24 Black Hills Power's next rate case, thirty percent of the program costs represent

1 the amount of margin Black Hills Power will lose as a result of the EES programs
2 implementation and therefore will not be recovering through its other charges
3 some of its fixed costs.

4 **Q: WHAT ARE THE PROPOSED EES ADJUSTMENT RATES?**

5 **A:** Based on the description provided above, Black Hill Power's proposed
6 tariff EES adjustment rates are as follows:

7 Residential per kWh rate of \$0.0009

8 Commercial and Industrial per kWh rate of \$0.0008

9 **Q: WHY ARE THERE TWO SEPARATE ADJUSTMENT RATES?**

10 **A:** The EES adjustment rates were developed by customer class to eliminate
11 the cross-subsidization of the program costs. The program costs and customer
12 collections will be tracked by residential and non-residential for purposes of the
13 Balancing Account described in the Accounting Procedures section of my
14 testimony.

15 **Q: WHY ARE THE EES ADJUSTMENT RATES VOLUMETRIC**
16 **RATHER THAN BASED ON A PERCENT OF REVENUE?**

17 **A:** The EES adjustment rates were designed as volumetric rates rather than
18 percent of revenue to eliminate the volatility of other cost adjustments and, in the
19 spirit of energy efficiency, focus customers on volumes rather than revenues.

20 **Q: WILL THE EES ADJUSTMENT APPLY TO ALL RATE**
21 **SCHEDULES?**

22 **A:** Yes. The EES Adjustment will apply to all rate schedules.

23 **Q: DO THE EES ADJUSTMENT RATES STATED ABOVE INCLUDE**
24 **A PERFORMANCE INCENTIVE?**

1 A. No, there are no performance incentives included in the EES adjustments.

2 **IV. ACCOUNTING PROCEDURES**

3 **Q: HOW ARE THE EE EXPENSES AND CUSTOMER**
4 **COLLECTIONS TRACKED?**

5 A: Black Hills Power's accounting system will track EES program costs by
6 program through the use of project codes. The customer billing system will track
7 EES adjustment collections by residential and non-residential through the use of
8 billing values. The expenses and collections are recorded to a regulatory asset
9 account (FERC Account 182.3) referred to as the Balancing Account.

10 **Q: WHAT IS THE PURPOSE OF THE BALANCING ACCOUNT?**

11 A: The Balancing Account is used to track EES program costs and activities
12 for customers. The Balancing Account is debited each month to reflect direct
13 expenditures incurred in the execution of the EES programs. These expenditures
14 will be recovered through the EES Adjustment collections received from
15 customers. The EES Adjustment will appear on customer bills as a separate line
16 item. These revenues will recover costs incurred for carrying out the EES
17 programs for customers and is a credit to the same balancing account the
18 expenditures are recorded.

19 **Q: WILL INTEREST BE APPLIED TO THE BALANCING**
20 **ACCOUNT?**

21 A: Yes. Consistent with Black Hills Power's other adjustment clauses, the
22 Balancing Account shall have interest applied or credited monthly at the annual
23 rate of seven percent (7%). The EES Adjustment will be applied monthly to the

1 Balancing Account, first to the interest balance, and thereafter to the principal
2 amount.

3 **V. REPORTING**

4 **Q: WHAT REPORTING DOES THE COMPANY PROPOSE?**

5 **A:** The Company proposes two separate formal reporting mechanisms as
6 follows:

- 7 1. Annual EES Program Status Report – This report will be filed annually
8 within 90 days after the anniversary of the EES tariff effective date. The
9 EES Program Status Report will summarize program participation,
10 expenditures and impacts, document adaptive management strategies over
11 the course of the reporting period and demonstrate the overall cost-
12 effectiveness of specific programs and the overall program portfolio. The
13 report will compare the Company’s annual goals to the actual
14 expenditures, impacts and participation. The cost-effectiveness of the
15 programs will be measured by the Total Resource Cost Test.
- 16 2. Annual EES Adjustment Filing – The purpose of this filing is to calculate
17 the EES Adjustment based on current actual and forecasted EES program
18 costs, relevant retail sales volumes and any over or under recovery from
19 prior years’ adjustments through the Balancing Account. This filing will
20 include a monthly reconciliation of EES adjustment collections as
21 compared to the EES program expenditures, including any interest
22 adjustments, and provide a period-end balance summary. The intent is to
23 recover the energy efficiency solutions costs over a three year period, or
24 36 months, from September 1, 2011 through August 30, 2014. For

1 consistency with Black Hill Power's other adjustment clause filings, this
2 filing will be made with the Commission on an annual basis no later than
3 April 30th, starting in 2013, for rates effective June 1st. As a result, the
4 proposed recovery periods for the EES costs are as follows:

- 5 • September 1, 2011 through May 31, 2013
- 6 • June 1, 2013 through May 31, 2014
- 7 • June 1, 2014 through August 30, 2014

8 **VI. TARIFF CHANGES**

9 **Q: PLEASE EXPLAIN THE CHANGES BEING MADE TO THE**
10 **TARIFFS.**

11 **A:** As Appendix B Black Hills Power's proposed EES Adjustment rate
12 schedule as Original Sheet No. 20 to Section No. 3C. This EES Adjustment rate
13 schedule provides the applicability of the rate schedule; the adjustment
14 calculation, rates and definitions; and effective date.

15 **VII. CONCLUSION**

16 **Q: HOW DOES THE EES PLAN AND ADJUSTMENT MECHANISM**
17 **BENEFIT CUSTOMERS AND THE COMPANY?**

18 **A:** As stated in the EES Plan, customers will immediately benefit from
19 participating in the EES programs by reducing their consumption of electricity
20 and, as a result, lowering their bills. The programs have been designed to be
21 inclusive, so all customers have the opportunity to benefit from the EES
22 programs. Results from EES programs will help the Company and the State of
23 South Dakota meet the established voluntary renewable, recycled, and conserved
24 energy objective.

1 The EES Adjustment contained on the EESA Tariff sheet allows Black
2 Hills Power to contemporaneously recover EES program expenditures and
3 actively pursue cost-effective EES Programs, while avoiding the uncertainty of
4 deferred expenditures and a general rate case to maintain desired results. In
5 addition, the lost margin recovery component of the EES Adjustment reduces the
6 inherent conflict that arises from the Company's revenue being tied to volumetric
7 sales while offering customers incentives to use less electricity.

8 Finally, it is perceived that energy efficiency is an under utilized resource
9 that needs to be expanded to reduce customers costs, enhance energy security and
10 improve the environment. Black Hills Power's filing of the EES Plan and the
11 Adjustment Mechanism will allow the Company to make progress towards these
12 goals while also balancing the Company's interests.

13 **Q: DOES THIS CONCLUDE YOUR PREPARED DIRECT**
14 **TESTIMONY?**

15 **A. Yes, it does.**