

SCHEDULE 24

**ESTIMATED ACQUISITION PREMIUM
AND TRANSACTION COSTS FOR
KANSAS ASSETS**

(TO BE FILED WHEN IT BECOMES AVAILABLE)

SCHEDULE 25

**ACQUISITION PREMIUM AND TRANSACTION
COSTS RECOVERY PLAN**

(TO BE FILED WHEN IT BECOMES AVAILABLE)

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Joint Application of Aquila,)
Inc., d/b/a Aquila Networks - KGO, Black Hills)
Corporation and Black Hills/Kansas Gas Utility)
Company, LLC ("BH/Kansas Gas"), Joint)
Applicants, for an Order Approving the Transfer)
to BH/Kansas Gas of Aquila's Certificates of)
Convenience and Necessity and Franchises with)
Respect to all of Aquila's Kansas Natural Gas)
Business, Including its Transmission and)
Distribution Facilities Located in the State of)
Kansas, and for Other Related Relief.)
)

Docket No. 07-_____ - _____ -ACQ

STATE CORPORATION COMMISSION

APR 04 2007

 Docket
Room

**DIRECT TESTIMONY OF RICHARD C. LOOMIS
OPERATING VICE PRESIDENT, KANSAS AND COLORADO GAS
FOR AQUILA, INC**

April 4, 2007

1 **DIRECT TESTIMONY OF RICHARD C. (“CHUCK”) LOOMIS,**
2 **OPERATING VICE PRESIDENT, KANSAS AND COLORADO GAS**
3 **FOR AQUILA, INC.**

4
5 **I. INTRODUCTION AND QUALIFICATIONS**

6
7 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

8 A. My name is Richard C. (“Chuck”) Loomis. My business address is 110 E. 9th, Lawrence,
9 Kansas 66044. I am employed by Aquila, Inc. d/b/a Aquila Networks (“Aquila”) as
10 Operating Vice President, Kansas and Colorado Gas.

11 **Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
12 **EMPLOYMENT HISTORY.**

13 A. I have earned a Master of Business Administration degree from Bowling Green State
14 University in Bowling Green, Ohio, and a Bachelor of Business Administration degree
15 with a major in Accounting from the University of Toledo, Toledo, Ohio. In addition, I
16 have completed courses related to rate regulation of natural gas utilities and natural gas
17 distribution operations, sponsored by various industry organizations and associations. I
18 joined Michigan Gas Utilities (“MGU”) in 1985 as General Accountant. From 1987
19 through 1994, I worked in positions of increasing responsibility in MGU’s Rates and
20 Regulatory Affairs function, becoming manager in 1992. In 1989, Aquila (formally
21 “UtiliCorp United”) acquired MGU from Michigan Energy Resources Company and
22 continued to operate MGU as a separate division.

23 From 1994-1997, I served as State Administrator in Michigan, and in July 1997,
24 relocated to Omaha, Nebraska, to become Asset Manager for Iowa and Nebraska. In this
25 position, I was responsible for operational and financial performance of Aquila’s gas
26 distribution assets serving nearly 325,000 customers in these two states. I became

1 Manager, Nebraska Business Operations as part of a corporate restructuring in 2002. I
2 was named Operating Vice President, Kansas and Colorado Gas in February 2004.

3 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED TO KANSAS GAS**
4 **OPERATIONS AND RETAIL BUSINESS?**

5 A. I am responsible for the financial and operational performance of Aquila’s gas
6 distribution operations in the states of Kansas and Colorado. I directly oversee all of
7 Aquila’s Kansas gas utility operating functions, including gas distribution network
8 operations, maintenance, construction, customer service, customer relations, legislative
9 affairs, community relations, and economic development. I am indirectly involved in the
10 oversight of certain other functions that are centralized within Aquila and provide support
11 to Kansas gas network operations. Examples of those centralized functions include gas
12 supply, regulatory, accounting, and call center functions.

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
14 **AGENCIES?**

15 A. Yes. I have testified before the Michigan Public Service Commission and the Nebraska
16 Public Service Commission on various rate and regulatory matters. I have also presented
17 public testimony before the Nebraska Legislature Urban Affairs Committee and its
18 Revenue Committee, as well as the Utilities Committee of the Kansas Senate, and filed
19 testimony before the Kansas Corporation Commission (“Commission”) in KCC Docket
20 Nos. 02-UTCG 701 GIG (“701 Docket”), 05-AQLG-367-RTS and 07-AQLG-431-RTS.

21 **II. PURPOSE OF TESTIMONY**

22 **Q: WHAT IS THE PRIMARY PURPOSE OF YOUR TESTIMONY?**

1 A: The purpose of my testimony is to support the Joint Application in this proceeding. In
2 support of the Joint Application, I will describe Aquila's existing Kansas gas operations,
3 present data reflecting Aquila's Kansas class customer counts, annual sales volumes and
4 annual revenues, and support a service territory map of Aquila's Kansas operations,
5 which is attached as Schedule 1 to the Joint Application. I will also present information
6 demonstrating Aquila's success in consistently exceeding Quality of Service standards
7 established by the Commission in 2005, and my understanding and belief that Black Hills
8 Corporation is committed to maintaining consistent safe, reliable natural gas service to
9 customers in Kansas upon completion of the acquisition of Aquila's Kansas Gas
10 properties. Finally, I will provide my view that Aquila will work with Black Hills
11 representatives to make this acquisition transaction seamless, and to the extent possible,
12 beneficial for all stockholders.

13 **Q: ARE YOU FAMILIAR WITH THE ACQUISITIONS TRANSACTION AS IT**
14 **RELATES TO AQUILA'S KANSAS GAS UTILITY OPERATIONS?**

15 A: Yes, I am.

16 **III. REVIEW OF KANSAS GAS OPERATIONS**

17 **Q. PLEASE DESCRIBE THE COMPANY'S KANSAS OPERATIONS.**

18 A. Aquila serves approximately 106,000 retail customers in 54 communities and areas in 35
19 counties. Operation Centers are located in the major cities and towns served by Aquila,
20 which include Lawrence, Wichita, Garden City, Dodge City, Liberal and Goodland.

21 **Q. PLEASE SUMMARIZE THE COMPANY'S MANAGEMENT STRUCTURE.**

22 A. Mr. Richard Green is the Chairman and CEO of Aquila. Mr. Jon Empson is Senior Vice
23 President of Regulated Operations. I report directly to Mr. Empson. Key members of my

1 management team supporting Kansas are Randy Dyer, Director of Business Operations;
2 Lezli Root, Manager Customer Relations, Terry Thomas, Senior Financial Manager, Wes
3 Ashton, Manager Government Relations, Meg McGill, Manager Regulatory Services,
4 and Chuck Hoag, Jerry Watkins and Gary Wise, Operations Managers. Others
5 responsible for supporting Aquila's service in Kansas that work as part of my team
6 include: Larissa Long, Manager External Affairs, Ruth Bealer, Manager of Human
7 Resources, Harry Ono, Senior Manager Gas Supply, and Mike VanZuiden, Direct
8 Product and Process Improvement.

9 **Q. PLEASE DESCRIBE AQUILA'S KANSAS GAS CUSTOMER BASE,**
10 **HISTORICAL SYSTEM LOAD AND CLASS REVENUES.**

11 A. Table 1 shows the 2006 year-end Kansas customer count by customer class.

12 **Table 1**
13 **Aquila Kansas Gas**
14 **Customer Count – By Customer Class**

Class	Kansas
Residential	94,473
Commercial	9,428
Industrial	1,134
Government	
Sales for Resale	8
Other	
Transportation	1,217
Total	106,260

15
16
17 Aquila's 2006 volumetric sales in Kansas are shown in Table 2 below by customer class
18 on a non-weather-adjusted basis.

1 **Table 2**
 2 **Aquila Kansas Gas**
 3 **Volumes Sold or Transported –By Customer Class**
 4 **(Million Mcf @14.73)**

Class	Kansas
Residential	5,837
Commercial	2,348
Industrial	2,253
Government	
Sales for Resale	118
Other	
Transportation	11,996
Total	22,552

5
 6 Aquila's 2006 revenues from Kansas gas operations are shown in Table 3 below.

7 **Table 3**
 8 **Aquila Kansas Gas**
 9 **2006 Revenues**
 10 **(\$ Million)**

Class	Kansas
Residential	\$71.8
Commercial	24.8
Industrial	14.1
Government	0.0
Sales for Resale	1.1
Other	3.9
Transportation	4.5
Total	\$120.2

11
 12 **IV. QUALITY OF SERVICE**

13 **Q. ARE YOU FAMILIAR WITH THE QUALITY OF SERVICE STANDARDS**
 14 **REPORTING REQUIREMENTS INITIATED BY THIS COMMISSION IN THE**
 15 **701 DOCKET?**

16 **A.** Yes. In 2004 this Commission's Staff recommended that the Commission require Aquila
 17 to file a quarterly quality of service standards report relating to Aquila's natural gas
 18 service, electric service and call center service in Kansas in the 701 Docket. On February
 19 21, 2005, the Commission issued an Order requiring Aquila to file quarterly reports
 20 setting forth specific quality of service standards information. Aquila has been filing said

1 reports since May 2005. With respect to the quality of service standards for Aquila's
2 natural gas service and call center service, Aquila has met or exceeded the standards
3 adopted by this Commission in every quarter.

4 **Q. CAN YOU IDENTIFY THE SCHEDULE ATTACHED TO THE JOINT**
5 **APPLICATION RELATING TO AQUILA'S QUALITY OF SERVICE**
6 **STANDARDS REPORT?**

7 A. Yes, the schedule is a copy of Aquila's most recent quality of service standards report
8 filed in the 701 Docket. The report shows that Aquila exceeded the quality of service
9 standards during the last reported quarter.

10 **Q. IS IT YOUR UNDERSTANDING THAT BLACK HILLS INTENDS TO**
11 **CONTINUE FILING THE QUARTERLY REPORTS WITH RESPECT TO**
12 **QUALITY OF SERVICE?**

13 A. Yes. It is my understanding that Black Hills intends to continue to file said reports
14 relating to natural gas service and call center services.

15 **V. CUSTOMER IMPACT AS A RESULT OF THE ACQUISITION TRANSACTION**

16 **Q: WHAT, IF ANY, CHANGES WILL AQUILA'S KANSAS GAS CUSTOMERS SEE**
17 **AS A RESULT OF THIS ACQUISITION TRANSACTION?**

18 A: We expect our gas customers will see minimal change as a result of this acquisition
19 transaction. Aquila, Great Plains Energy Incorporated ("GPE"), and Black Hills have
20 established a pre-closing transaction team comprised of employees from all three
21 companies. The primary purpose of this team is to provide for a smooth transition of
22 operations. Black Hills witness Linden R. Evans will address transition services and
23 Black Hill's plan of operations in more detail.

1 **Q. ARE YOU BEING OFFERED EMPLOYMENT BY BLACK HILLS IN YOUR**
2 **CURRENT CAPACITY?**

3 A. Yes. I have been informed by Black Hills that I will be offered employment in my
4 current position as the operating vice president for the Kansas and Colorado gas utility.

5 **Q. WILL THERE BE CONTINUITY IN CUSTOMER SERVICE?**

6 A. Yes. As further described in the testimony of Mr. Evans, Black Hills has stated its intent
7 to offer employment to all of Aquila's field operations and field customer-service
8 employees in Colorado, Kansas, Nebraska, and Iowa in order to provide for consistency
9 in customer service and to preserve institutional knowledge relied upon in providing such
10 service.

11 **Q. HOW DO YOU VIEW THIS TRANSACTION AND THE MANNER IN WHICH**
12 **IT IS INTENDED TO BE ACCOMPLISHED?**

13 A. My view is that, as structured, this transaction will generally maintain the same operating
14 resources that exist today. My team of managers will work with Black Hills managers to
15 provide for a seamless transition. In addition, such key functions as engineering, gas
16 supply, regulatory, human resources, financial management, call center, meter repair, and
17 technical training will be maintained throughout the transition. Once the transition is
18 complete, it may be necessary for Black Hills to hire additional personnel. For all of the
19 reasons addressed in more detail by Mr. Evans, my view is that this transaction is a
20 positive development for our customers, our communities, and our employees.

21 **Q: DOES THAT CONCLUDE YOUR PREPARED DIRECT TESTIMONY?**

22 A: Yes, it does.

AFFIDAVIT

STATE OF KANSAS)
) ss.
COUNTY OF DOUGLAS)

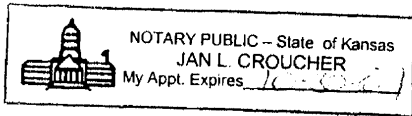
Richard C. ("Chuck") Loomis, of lawful age, being first duly sworn on oath, and under penalty of perjury states:


That he is the Operating Vice President, Kansas and Colorado Gas for Aquila, Inc., d/b/a Aquila Networks named in the foregoing Direct Testimony, and is duly authorized to make this affidavit on behalf of Aquila, Inc.; that he has read the foregoing Direct Testimony, and knows the contents thereof; and that the facts set forth therein are true, accurate and correct to the best of his knowledge, information and belief.



Richard C. Loomis

SUBSCRIBED AND SWORN to before me this 3rd day of April, 2007.





Notary Public

My Commission Expires:

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of the Joint Application of)
Aquila, Inc., d/b/a Aquila Networks - KGO,)
Black Hills Corporation and Black)
Hills/Kansas Gas Utility Company, LLC)
("BH Kansas Gas"), Joint Applicants, for an)
Order Approving the Transfer to BH Kansas)
Gas of Aquila 's Certificates of Convenience)
and Necessity and Franchises with Respect to)
all of Aquila's Kansas Natural Gas Business,)
Including its Transmission and Distribution)
Facilities Located in the State of Kansas, and)
for Other Related Relief.)
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Docket No. 07-_____-_____-ACQ

STATE CORPORATION COMMISSION

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**DIRECT TESTIMONY OF R. THOMAS FLEENER
VICE PRESIDENT, CORPORATE DEVELOPMENT
FOR AQUILA, INC.**

April 4, 2007

1 **DIRECT TESTIMONY OF R. THOMAS FLEENER,**
2 **VICE PRESIDENT, CORPORATE DEVELOPMENT FOR AQUILA, INC.**

3
4 **I. INTRODUCTION AND QUALIFICATIONS**

5 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

6 A. My name is R. Thomas Fleener and my business address is 20 West 9th Street, Kansas
7 City, Missouri. I am presently employed by Aquila, Inc. (“Aquila”) as Vice President,
8 Corporate Development.

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

10 A. I have been in my current position with Aquila since mid-2004. Prior to this I served as
11 Vice President of Corporate Development for Aquila Merchant Services. I began my
12 employment with Aquila in July 2001. Prior to joining Aquila, I worked for Verizon
13 Corporation where I was involved in corporate development, finance and accounting
14 matters. I have an MBA from the University of Texas at Austin and a Bachelor of
15 Science degree in business from Trinity University.

16 **Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AT AQUILA?**

17 A. Among other duties, I am primarily responsible for leading corporate development,
18 mergers and acquisitions, and other strategic initiatives for Aquila. In this transaction, I
19 was responsible for managing the execution of the strategy, and I am currently involved
20 in satisfying the conditions to close the transaction.

21 **II. PURPOSE OF TESTIMONY**

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

23 A. The purpose of my testimony is to describe the process that Aquila utilized to sell its
24 Missouri and Colorado electric assets and its gas assets in Colorado, Iowa, Kansas and

1 Nebraska to Great Plains Energy Incorporated and Black Hills Corporation as part of a
2 two-step transaction.

3 **III. AQUILA'S DECISION PROCESS**

4 **Q. WHY DID AQUILA DECIDE TO EXPLORE A POTENTIAL SALE ?**

5 A. Simply put, the timing was right. As Aquila completed its repositioning plan and
6 strengthened its financial condition over the past few years, Aquila was approached about
7 the possibility of a strategic transaction. Given Aquila's September 2005 announcement
8 of the sale of four utility operations and its need to effectively deploy those sale proceeds,
9 the Aquila Board of Directors ("Aquila's board") determined that it would be appropriate
10 to conduct a strategic review of Aquila's remaining operations and consider alternatives
11 to its stand-alone plan that could provide greater shareholder value. As part of this
12 strategic review, Aquila compared its baseline stand-alone plan against other corporate
13 business structure alternatives, such as a potential business combination or additional
14 asset sales. As a result of the strategic review, Aquila's board determined that
15 shareholder value would most likely be maximized through a sale of Aquila.

16 **Q. WHEN DID AQUILA BEGIN ITS STRATEGIC REVIEW?**

17 A. Aquila began its strategic review process in the fall of 2005. Aquila continued to refine
18 its strategic plan and underlying financial models throughout 2006. For example, Aquila
19 updated its stand-alone analysis as part of its normal quarterly process during 2006 and
20 again when Aquila concluded its annual budgeting process in the fall of 2006.

21 **IV. FINANCIAL ADVISORS**

22 **Q. WHO WERE THE FINANCIAL ADVISORS RETAINED BY AQUILA?**

1 A. Aquila retained The Blackstone Group LP (“Blackstone”) and Lehman Brothers Inc.
2 (“Lehman Brothers”) to advise Aquila on this transaction, and Evercore Group LLC
3 (“Evercore”) to advise the independent members of Aquila’s board regarding this
4 transaction.

5 **Q. HAD AQUILA PREVIOUSLY WORKED WITH BLACKSTONE, LEHMAN**
6 **BROTHERS OR EVERCORE?**

7 A. Yes, most recently, Aquila worked with The Blackstone Group and Lehman Brothers in
8 connection with the sale of Aquila’s Michigan, Minnesota and Missouri gas operations
9 and Kansas electric operations. Evercore has acted as the financial advisor to Aquila’s
10 independent directors since 2002, having provided advice to the independent directors on
11 numerous aspects of Aquila’s strategic restructuring transactions (including its liability
12 management plans, asset sales and now, merger).

13 **V. BID PROCESS**

14 **Q. HOW MANY POTENTIAL BUYERS DID AQUILA CONTACT AS PART OF ITS**
15 **SALE PROCESS?**

16 A. In May 2006, Aquila’s financial advisors recommended and Aquila’s board authorized
17 Aquila’s management to approach nine parties identified as potential buyers. In
18 determining which parties to contact, Aquila considered, among other things, the
19 “logical” potential bidders (in terms of operational synergies, financial wherewithal,
20 M&A capability, etc.) and the parties that expressed an interest previously in acquiring all
21 or portions of Aquila. The nine parties included seven strategic parties and two financial
22 parties.

1 **Q. HOW MANY CONTACTED PARTIES SIGNED CONFIDENTIALITY**
 2 **AGREEMENTS?**

3 A. Seven (five strategic and two financial) of the nine contacted parties signed
 4 confidentiality agreements. The two other contacted parties declined to participate in the
 5 process, citing (i) in one case, an unwillingness to participate in an auction process and a
 6 view that delivering a premium to the then-current share price of approximately \$4.20
 7 could be challenging, and (ii) in the other case, an interest only in a portion of Aquila's
 8 regulated operations. Of the seven parties that signed confidentiality agreements, six
 9 were provided with confidential marketing materials, including the Company's financial
 10 projections. The seventh party elected not to continue in the process.

11 **Q. HOW MANY PARTIES SUBMITTED INDICATIVE BIDS, AND WHAT WERE**
 12 **THE INDICATIVE PRICE RANGES?**

13 A. Five parties submitted non-binding indicative bids in July 2006. Each indication of
 14 interest was conditional upon further due diligence and the confirmation of certain
 15 assumptions made by the party submitting the indication of interest. An overview of the
 16 indicative bids follows:

Indicative Bidder	Description of Participant	Indicative Bid Range per Aquila Share	Form of Consideration
A	Financial entity partnering with a Strategic entity	\$4.50 - \$5.00	100% Cash
B	Strategic entity*	\$4.50 - \$4.95	100% Stock
C	Strategic entity	\$4.50	100% Cash
D	Strategic entity**	\$4.15 - \$4.60	100% stock (potential 20% cash option)
E	Great Plains/Black Hills	\$4.15 - \$4.60	60% stock/40% cash

17

1 * This bidder subsequently indicated it would partner with another strategic party, which
2 would acquire Aquila's gas operations.

3 ** This bidder subsequently partnered with another strategic entity, which was to acquire
4 Aquila's gas operations.
5

6 **Q. HOW MANY BIDDERS WERE INVITED TO SUBMIT FINAL PROPOSALS IN**
7 **THE "SECOND" ROUND OF THE PROCESS?**

8 A. Each of the five parties that submitted a non-binding indication of interest was invited to
9 conduct detailed due diligence and to submit a definitive offer in the "second" round of
10 the sale process. In late August or early September of 2006, Aquila's management made
11 presentations about Aquila's business operations to four of the five bidding entities
12 participating in the second round of the process. The fifth participant declined an
13 invitation to receive a management presentation.

14 **Q. HOW MANY PARTICIPANTS IN THE SALE PROCESS SUBMITTED FINAL**
15 **BIDS?**

16 A. Of the five participants invited into the second round, only one bidder group (the Great
17 Plains-Black Hills bidder consortium) submitted an offer in late November 2006. It was
18 non-binding and contingent on the Company entering into exclusive negotiations to
19 finalize the commercial terms of definitive agreements. The reasons cited by the other
20 parties for not submitting final bids, based on conversations between the non-bidding
21 parties and Aquila's financial advisors, include:

Indicative Bidder	Month of Withdrawal (2006)	Reasons Cited
A	September	Prioritized other foreign and domestic opportunities (including previously-announced transactions)
B	October	Indicated a willingness to proceed only if granted exclusivity and at a price reflecting an approximate 20% discount to its then current share price
C	October	Cited concerns about the size of the transaction and potential regulatory issues
D	November	Cited regulatory and other considerations

1

2 **Q. DID AQUILA EVER ENTER INTO EXCLUSIVE NEGOTIATIONS WITH ANY**
3 **OF THE BIDDERS?**

4 A. Yes. One of the conditions of the Great Plains-Black Hills proposal was that Aquila
5 agree to negotiate exclusively with them. On December 8, 2006, after receiving detailed
6 presentations regarding the status of the sale process and terms of the bid received from
7 Great Plains and Black Hills, Aquila’s board authorized Aquila to enter into exclusive
8 negotiations with Great Plains and Black Hills in pursuit of a sale of Aquila.

9 **Q. THROUGHOUT THE SALE PROCESS, DID ANY OTHER PARTIES CONTACT**
10 **AQUILA OR ITS ADVISORS REGARDING A POTENTIAL BUSINESS**
11 **COMBINATION?**

12 A. No. At no point during the process did Aquila or its advisors receive any credible,
13 unsolicited expressions of interest (that is, legitimate proposals from companies with
14 sufficient balance sheet capacity, utility experience or M&A experience), even though
15 reports of a potential sale of Aquila existed in the marketplace. For example, articles
16 reported during the process include:

- 17 • July 2006: *Power Finance and Risk* reported Aquila had put itself up for sale;

- 1 • July 2006: *Reuters* reported on the *Power Finance and Risk* article, and the *Reuters*
2 article was subsequently picked up by other sources, such as *The Energy Daily* and
3 the *Kansas City Star*;
- 4 • July 2006: *The Australian Financial Review* reported that Aquila was for sale and
5 that Australian companies were likely bidders;
- 6 • July 2006: *The Kansas City Star* reported on the market speculation surrounding
7 Aquila having reportedly put itself up for sale;
- 8 • July 2006: *The Deal* listed Aquila in its “New on the Block” section, which tracks
9 companies that have (or reportedly have) put themselves up for sale;
- 10 • July 2006: *Corporate Finance Weekly* reported Aquila had launched a sales process
11 and hoped to “hook” a buyer in the \$5.00 - \$5.50 per share range; and
- 12 • November 2006: *Financial Times* reported Aquila was evaluating bids for a potential
13 sale of the company.

14 **Q. DID AQUILA CONFIRM OR DENY THESE REPORTS?**

15 A. Like many companies, Aquila’s long-standing policy has been, and continues to be, not to
16 comment on speculation regarding Aquila’s future. For obvious reasons, Aquila
17 maintained this policy during the sales process.

18 **VI. AQUILA’S BOARD OF DIRECTORS REVIEW OF FINANCIAL**

19 **ADVISOR OPINIONS**

20 **Q. HOW INVOLVED WAS AQUILA’S BOARD OF DIRECTORS IN THE SALE**
21 **PROCESS?**

22 A. As shown by Aquila’s Securities and Exchange Commission filings, Aquila’s board was
23 closely involved in the events that occurred throughout the period leading to the merger

1 announcement. The process was discussed at every regularly-scheduled Aquila's board
2 meeting, and between October 2006 and February 6, 2007, Aquila's board held eight
3 special meetings solely to discuss the sale. Aquila's board also received updates
4 periodically from management throughout the process, particularly as significant events
5 occurred (such as the withdrawal of a bidder or events that could impact Aquila's stand-
6 alone value).

7 **Q. DID AQUILA'S BOARD RECEIVE ANY FAIRNESS OPINIONS BEFORE**
8 **APPROVING THE MERGER?**

9 A. Yes. Before unanimously approving the merger on February 6, 2007, Aquila's board
10 received opinions from Blackstone and Lehman Brothers, and the independent members
11 of Aquila's board received an opinion from Evercore, to the effect that, as of February
12 2007, based upon the assumptions and other qualifications contained in their opinions,
13 the consideration to be received by Aquila's shareholders in the merger was fair from a
14 financial point of view.

15 **VII. FINANCIAL QUESTIONS**

16 **Q. WHAT WERE THE KEY ASSUMPTIONS MADE BY YOUR FINANCIAL**
17 **ADVISORS IN RENDERING FAIRNESS OPINIONS?**

18 A. The fairness analyses of Blackstone, Lehman Brothers and Evercore will be described in
19 detail in Aquila's merger proxy statement, which will be filed when it is available. At
20 Aquila's request, however, the financial advisors have prepared drafts of the information
21 they will be required to provide for Aquila's merger proxy statement with respect to their
22 fairness opinions. The materials prepared by Blackstone, Lehman Brothers and Evercore
23 are attached to the Joint Application as Schedule 18.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

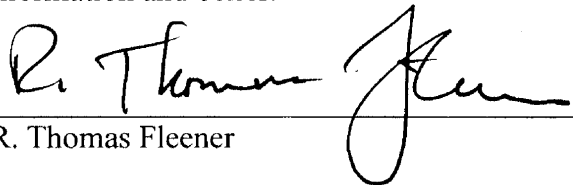
2 A. Yes.

AFFIDAVIT

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

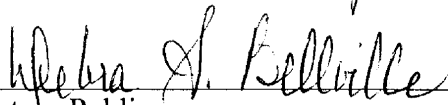
R. Thomas Fleener, of lawful age, being first duly sworn on oath, states:

That he is the Vice President, Corporate Development of Aquila, Inc., named in the foregoing Direct Testimony, and is duly authorized to make this affidavit; that he has read the foregoing Direct Testimony, and knows the contents thereof; and that the facts set forth therein are true and correct to the best of his knowledge, information and belief.



R. Thomas Fleener

SUBSCRIBED AND SWORN to before me this 2nd day of April, 2007.



Notary Public

My Commission Expires:

DEBRA S. BELLVILLE
Notary Public - Notary Seal
STATE OF MISSOURI
Jackson County
Commission # 06907212
My Commission Expires: June 28, 2010

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

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DIRECT TESTIMONY OF LINDEN R. EVANS

DIRECT TESTIMONY OF LINDEN R. EVANS

I. INTRODUCTION AND QUALIFICATIONS

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Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Linden R. Evans. My business address is 625 Ninth Street, P.O. Box 1400, Rapid City, South Dakota 57709. I am employed by Black Hills Corporation (“Black Hills”) as President and Chief Operating Officer for Black Hills’ Retail Business Segment, which includes Black Hills Power, Inc. (“Black Hills Power”) and Cheyenne Light, Fuel and Power Company (“Cheyenne Light”).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. I received a Bachelor of Science degree in Mining Engineering from the University of Missouri, Rolla, Missouri, and a Juris Doctorate degree from Northwestern School of Law of the Lewis and Clark College, Portland, Oregon. I am a registered professional engineer with the State of South Dakota. From 1984 to 1988 I was employed as a mining engineer with St. Joe Minerals Corporation. From 1988 to 1990 I was employed as a mining engineer with Homestake Mining Company of California. I was in the private practice of law from 1993 to 2001 with the following law firms: Jackson and Kelly, LLC, in Charleston, West Virginia; Marvin D. Truhe Law Offices, Rapid City, South Dakota; and Truhe, Beardsley, Jensen, Helmers and VonWald, in Rapid City, South Dakota. From May 2001 to December 2003 I served as Associate Counsel in the Office of General Counsel of Black Hills providing legal services for the corporation and its divisions. From December 2003 to October 2004 I served as the Vice President and General Manager of Black Hills FiberCom, a

1 former communication subsidiary of Black Hills. I was appointed to my current
2 position in October of 2004.

3 **Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AS PRESIDENT**
4 **AND CHIEF OPERATING OFFICER OF THE RETAIL BUSINESS**
5 **SEGMENT?**

6 A. I am the executive responsible for managing and implementing the strategic
7 objectives for Black Hills' utility businesses. My responsibilities include ensuring the
8 retail utility companies are managed efficiently and in a manner to provide reliable,
9 reasonably-priced and safe natural gas and electricity service to our customers and
10 long term value to our shareholders. This responsibility includes maintaining open
11 and quality relationships with our stakeholders - including customers, regulators,
12 communities served, and shareholders.

13 **II. PURPOSE OF TESTIMONY**

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

15 A. I will provide an overview of Black Hills and its utility subsidiaries, Black Hills
16 Power and Cheyenne Light. I provide an overview of the proposed transaction,
17 address the reasons for the acquisition, describe Black Hills' customer service and
18 regulatory philosophy, and discuss the transition and some portions of Black Hills'
19 plans for operation of the new Black Hills utilities. I address some of the KPL/KGE
20 merger standards identified in the Joint Application. I discuss Black Hills' plan to
21 adopt Aquila's rates and tariffs and its plan to adopt the quality of service standards
22 reporting requirements currently in place for Aquila's Kansas gas operations.

1 **III. BLACK HILLS CORPORATION**

2 **Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF BLACK HILLS**
3 **CORPORATION.**

4 A. Black Hills is a South Dakota corporation with its principal executive offices located
5 in Rapid City, South Dakota. The corporation is a public utility holding company
6 under the Energy Policy Act of 2005 and is the ultimate parent corporation of the
7 Black Hills organization. Black Hills is publicly traded and is listed on the New York
8 Stock Exchange under the symbol "BKH."

9 Black Hills is a diversified energy company engaged in two principal lines of
10 business: electric and gas utility service in three states, and wholesale energy
11 production and marketing throughout the western United States and western Canada.

12 Black Hills currently has the following four wholly-owned subsidiaries:

- 13 (1) Black Hills Power,
14 (2) Cheyenne Light,
15 (3) Black Hills Energy, Inc. ("Black Hills Energy"), a wholesale energy
16 group, and
17 (4) Black Hills Service Company, LLC. ("Black Hills Service").

18 A copy of Black Hills' current corporate organizational chart is attached as a
19 Schedule to the Joint Application.

20 **A. BLACK HILLS POWER**

21 **Q. PLEASE DESCRIBE THE BUSINESS OF BLACK HILLS POWER.**

22 A. Black Hills Power is a South Dakota corporation. Black Hills Power was organized
23 in 1941 and has served retail electric customers through its predecessors since the
24 early 1880s. Black Hills Power currently provides retail electric service to

1 approximately 65,000 customers in South Dakota, Wyoming, and Montana in a
2 service territory that covers approximately 9,300 square miles. Black Hills Power's
3 retail customer base is a mix of residential, commercial, and industrial customers.
4 Black Hills Power also makes wholesale sales of electric capacity and energy to
5 municipal and investor-owned utility customers in Wyoming and Nebraska and to
6 other off-system wholesale customers throughout the western United States under rate
7 schedules and tariffs on file with the Federal Energy Regulatory Commission
8 ("FERC"). Black Hills Power is subject to regulation as a public utility under the
9 public utility laws of the states of South Dakota, Wyoming, and Montana with respect
10 to retail electric rates and charges and the issuance of most of its securities. Black
11 Hills Power also is subject to regulation by the FERC pursuant to the Federal Power
12 Act with respect to the classification of accounts, rates for wholesale sales of
13 electricity, the interstate transmission of electric power and energy, interconnection
14 agreements, and acquisitions and sales of certain utility properties.

15 **Q. WHAT ARE BLACK HILLS POWER'S SUMMER AND WINTER PEAK**
16 **LOADS?**

17 A. Black Hills Power has an average system load of approximately 245 megawatts
18 (MW) and established a new winter peak load of 361 MW in February 2007 and a
19 new summer peak load of 415 MW in July 2006.

20 **Q. PLEASE DESCRIBE THE GENERATION FACILITIES OF BLACK HILLS**
21 **POWER.**

22 A. Black Hills Power owns and operates approximately 435 MW of generating capacity
23 located in South Dakota and Wyoming that it uses to serve its retail and wholesale

1 customers and also to make off-system wholesale electric capacity and energy sales.

2 Black Hills Power's generating resources include the following:

Plant	Location	Fuel Type	Total Capacity (MW)	Black Hills' Interest	BHills' Capacity (MW)
Ben French	SD	Coal	25.0	100%	25.0
Ben French Diesels 1-5	SD	Diesel	10.0	100%	10.0
Ben French CTs 1-4	SD	Gas/Oil	100.0	100%	100.0
Lange CT	SD	Gas	40.0	100%	40.0
Neil Simpson I	WY	Coal	21.8	100%	21.8
Neil Simpson II	WY	Coal	91.0	100%	91.0
Neil Simpson CT	WY	Coal	40.0	100%	40.0
Osage	WY	Coal	34.5	100%	35.0
Wyodak*	WY	Coal	362.0	20%	72.4
TOTAL			724.3		435.2

* Operated by Rocky Mountain Power

3 During 2006, Black Hills Power purchased 1,376,318 tons of coal from the Wyodak
4 mine near Gillette, Wyoming, to generate electricity.

5 Of the approximately 435 MW total installed capacity, 175 MW of Black
6 Hills Power's installed capacity is presently located in Western South Dakota, with an
7 additional 259.7 MW located in eastern Wyoming due to the abundance of low sulfur
8 coal and natural gas in the state. By constructing its plants in close proximity to their
9 fuel source, Black Hills Power is able to provide economical power to its customers
10 and eliminate the substantial cost of transporting fuel by rail or pipeline to its
11 generating facilities.

12 Black Hills Power operates a 24 hour scheduling and dispatch center for its
13 generation. Black Hills Power is also a member of the Rocky Mountain Reserve
14 Group and, as such, provides spinning reserves to the Rocky Mountain Reserve
15 Group. This pooling of spinning reserves allows the pool to more efficiently provide

1 backup power resources for its members. The benefit of membership is that by
2 pooling reserves, the members can increase reliability at a lower cost.

3 **Q. PLEASE DESCRIBE THE TRANSMISSION AND DISTRIBUTION**
4 **FACILITIES OF BLACK HILLS POWER.**

5 A. Black Hills Power owns 2300 miles of low voltage distribution lines serving its retail
6 customers. It also owns 480 miles of 69 kV lines and owns or jointly owns 494 miles
7 of 230 kV transmission lines in South Dakota, Wyoming, and Nebraska. Black Hills
8 Power operates its transmission system as part of the “Common Use System,” a
9 jointly-operated system comprising the transmission facilities of Black Hills Power,
10 Basin Electric Power Cooperative (“Basin Electric”), and Powder River Energy
11 Corporation (“PRECorp”). Black Hills Power serves as Joint Tariff Administrator for
12 the joint open access transmission tariff on file with the FERC under which Black
13 Hills Power, Basin Electric, and PRECorp provide transmission service on the
14 Common Use System (“Joint OATT”). Because of the system’s isolated location,
15 Black Hills Power provides transmission service to only a small number of third-party
16 customers. Maps of the electric service area and transmission system of Black Hills
17 Power are attached as a Schedule to the Joint Application.

18 Black Hills Power and Basin Electric jointly own an AC-DC-AC transmission
19 tie (or converter station) located near Rapid City, South Dakota (“Rapid City Tie”),
20 that provides an electric interconnection between the Western and Eastern
21 transmission grids in the United States. The Rapid City Tie provides 200 MW of
22 electric transfer capability in each direction between the Western and Eastern grids.
23 Transmission service over the Rapid City Tie is available under the Joint OATT.
24 Black Hills Power’s right to schedule energy flows on the Rapid City Tie gives it the

1 ability to buy and sell energy in the Eastern interconnection, creating valuable
2 opportunities for Black Hills Power to market surplus energy generated in the west or
3 to purchase energy generated in the east for consumption in the west.

4 **Q. WHAT OTHER FACILITIES ARE OWNED BY BLACK HILLS POWER?**

5 A. In addition to the facilities identified above, Black Hills Power owns a service center
6 in Rapid City, several district office buildings at various locations within its service
7 area and an eight-story home office building in Rapid City, South Dakota.

8 **B. CHEYENNE LIGHT**

9 **Q. PLEASE DESCRIBE THE BUSINESS OF CHEYENNE LIGHT.**

10 A. Cheyenne Light is a Wyoming corporation that has been in existence since 1900.
11 Cheyenne Light is a combination electric and natural gas utility that serves retail
12 customers in and around Cheyenne, Wyoming, the state capital. Cheyenne Light
13 serves approximately 39,000 electric customers and 33,000 gas customers. Black
14 Hills acquired Cheyenne Light from Xcel Energy, Inc. ("Xcel Energy"), in January
15 2005. Cheyenne Light is subject to regulation as a public utility by the Wyoming
16 Public Service Commission under the public utility laws of the State of Wyoming
17 with respect to retail electric and natural gas rates and charges and the issuance of
18 most of its securities.

19 **Q. WHAT ARE CHEYENNE LIGHT'S AVERAGE AND PEAK ELECTRIC**
20 **LOADS?**

21 A. Cheyenne Light has an average system load of approximately 112 MW and
22 established a peak load of 163 MW in July 2003.

1 **Q. WHAT TRANSMISSION AND DISTRIBUTION FACILITIES DOES**
2 **CHEYENNE LIGHT OWN TO SERVE ITS ELECTRIC LOAD?**

3 A. Cheyenne Light owns 25 miles of transmission lines and approximately 1,165 miles
4 of distribution lines.

5 **Q. HOW DOES CHEYENNE LIGHT SUPPLY ELECTRICITY TO ITS**
6 **CUSTOMERS?**

7 A. Cheyenne Light does not currently own any generating capacity, but it is in the
8 process of constructing a 90 MW (net) mine-mouth coal-fired generating facility at
9 Gillette, Wyoming (“Wygen II Plant”), that Cheyenne Light will use for base-load
10 generating capacity and energy to meet its customers’ needs. The Wygen II Plant is
11 expected to begin commercial operations during the first quarter of 2008. In
12 conjunction with these and other developments, Cheyenne Light intends to file
13 wholesale power sales tariffs and an open access transmission tariff with the FERC
14 during 2007. As a FERC-jurisdictional public utility, Cheyenne Light will become
15 subject to regulation by the FERC with respect to the classification of accounts, rates
16 for wholesale sales of electricity, the interstate transmission of electric power and
17 energy, interconnection agreements, and acquisitions and sales of certain utility
18 properties.

19 Cheyenne Light currently serves its customers’ electricity requirements under
20 an all-requirements contract with Public Service Company of Colorado (“PSCo”), a
21 subsidiary of Xcel Energy. Prior to its acquisition by Black Hills in 2005, Cheyenne
22 Light executed contracts with Black Hills Wyoming, Inc., an unregulated wholesale
23 subsidiary of Black Hills. Those contracts are for 40 MW of energy from the Gillette
24 Combustion Turbine and 60 MW of base-load capacity and energy from the Wygen I

1 coal-fired power plant. Cheyenne Light previously assigned these contracts to PSCo,
2 but they revert back to Cheyenne Light at the end of 2007 in coordination with the
3 termination of the PSCo all-requirements contract. The Gillette Combustion Turbine
4 contract expires on August 31, 2011, and the Wygen I contract expires on March 31,
5 2013.

6 **Q. WHAT ARE CHEYENNE LIGHT’S ANNUAL NATURAL GAS SALES**
7 **AND TRANSPORTATION VOLUMES?**

8 A. Cheyenne Light has annual sales and transportation of approximately 12.4 million
9 dekatherms. Cheyenne Light provides natural gas service to both distribution service
10 customers and transportation customers. Cheyenne Light's annual gas deliveries
11 include 4.1 million dekatherms in sales to commercial and residential customers and
12 8.3 million dekatherms to transportation customers.

13 **Q. WHAT DISTRIBUTION FACILITIES DOES CHEYENNE LIGHT OWN TO**
14 **SERVE ITS NATURAL GAS LOAD?**

15 A. Cheyenne Light has approximately 750 miles of gas distribution lines.

16 **C. BLACK HILLS ENERGY**

17 **Q. PLEASE DESCRIBE BLACK HILLS’ WHOLESALE ENERGY GROUP.**

18 A. Black Hills conducts its wholesale energy production and marketing business through
19 its wholly-owned subsidiary, Black Hills Energy. Black Hills Energy has four
20 primary direct subsidiaries: Black Hills Generation, Inc. (“Black Hills Generation”),
21 Black Hills Exploration and Production, Inc. (“BHEP”), Wyodak Resources
22 Development Corp. (“Wyodak Resources”), and Enserco Energy Inc. (“Enserco”).
23 Black Hills Generation and its subsidiaries, including Black Hills Wyoming, Inc., are
24 engaged in independent power activities. BHEP is engaged in oil and natural gas

1 production. Wyodak Resources is engaged in coal production and sales. Enserco is
2 engaged in natural gas and crude oil marketing. Black Hills witness Thomas M.
3 Ohlmacher, President and Chief Operating Officer for Black Hills Energy, will
4 provide more detailed information regarding Black Hills Energy.

5 **D. SERVICE COMPANY**

6 **Q. PLEASE DESCRIBE THE BUSINESS OF BLACK HILLS SERVICE.**

7 A. Black Hills Service is a wholly-owned subsidiary of Black Hills that provides
8 centralized services. Black Hills Service provides such services as accounting,
9 finance, human resources, information technology, risk management, regulatory
10 affairs, governance, legal services, and other corporate services to its affiliated
11 companies in the Black Hills system. Mark T. Thies, Executive Vice President and
12 Chief Financial Officer of Black Hills, will provide more detail regarding Black Hills
13 Service in his testimony.

14 **IV. OVERVIEW OF THE PROPOSED ACQUISITION**

15 **Q. PLEASE DESCRIBE THE PROPOSED ACQUISITION.**

16 A. Aquila announced on February 7, 2007, that it had executed a definitive agreement
17 with Black Hills under which Black Hills will acquire Aquila's gas utility assets in
18 Colorado, Iowa, Kansas, and Nebraska and electric utility assets in Colorado. In a
19 separate but related transaction, Gregory Acquisition Corp., a wholly-owned
20 subsidiary of Great Plains Energy Incorporated ("GPE"), will merge with and into
21 Aquila, with Aquila as the surviving entity ("Merger"). The result of the Merger is
22 that GPE will effectively acquire Aquila's Missouri electric operations. Thomas
23 Fleener, Vice President, Business Development, for Aquila will provide more detail
24 regarding the Merger in his testimony.

1 **Q. PLEASE DESCRIBE THE UTILITY ASSETS THAT ARE BEING**
2 **ACQUIRED.**

3 A. Black Hills has agreed to acquire from Aquila its natural gas utility assets and
4 businesses in Colorado (64,000 customers), Iowa (146,000 customers), Kansas
5 (106,000 customers), and Nebraska (194,000 customers) and its electric utility assets
6 and business in Colorado (92,000 customers), along with support functions and assets
7 located in Council Bluffs, Iowa, and Omaha and Lincoln, Nebraska, for \$940 million,
8 subject to certain adjustments. Black Hills is assuming the contractual obligations
9 and liabilities of Aquila associated with the assets being acquired.

10 **Q. HOW WILL THE SALE AND TRANSFER OF AQUILA'S GAS ASSETS IN**
11 **COLORADO, IOWA, KANSAS, AND NEBRASKA AND ELECTRIC ASSETS**
12 **IN COLORADO BE ACCOMPLISHED?**

13 A. The sale and transfer of Aquila's utility assets to Black Hills will be accomplished
14 through the following series of transactions:

15 a. Black Hills has formed Black Hills Utility Holding Company,
16 Inc. ("BH Utility Holding"), a South Dakota corporation, which will hold all
17 of the acquired utility assets, through direct and indirect subsidiaries.

18 b. Aquila will transfer its gas utility assets in Iowa, Kansas, and
19 Nebraska to Black Hills in accordance with the terms of the Asset Purchase
20 Agreement ("APA"). A copy of the APA as filed with the Securities and
21 Exchange Commission ("SEC") (i.e., without the exhibits and schedules) is
22 attached as a Schedule to the Joint Application. A copy of the exhibits and
23 schedules to the APA will also be filed in this docket as soon as a Protective
24 Order has been issued in this case. Black Hills has formed three limited

1 liability companies in those states that will be direct subsidiaries of BH Utility
2 Holding. Black Hills/Iowa Gas Utility Company, LLC, a Delaware limited
3 liability company, will own the Iowa utility assets; Black Hills/Kansas Gas
4 Utility Company, LLC, a Kansas limited liability company ("BH Kansas
5 Gas"), will own the Kansas assets; and Black Hills/Nebraska Gas Utility
6 Company, LLC, a Delaware limited liability company, will own the Nebraska
7 utility assets.

8 c. Immediately before closing, Aquila will transfer its Colorado
9 electric utility assets and its Colorado natural gas utility assets to two
10 Delaware limited partnerships, Electric Opco and Gas Opco, respectively.
11 Aquila will be the General Partner of Electric Opco and Gas Opco, and Aquila
12 Colorado will be the Limited Partner of Electric Opco and Gas Opco.

13 d. Black Hills has formed Black Hills/Colorado Utility Company,
14 Inc., a Colorado Corporation ("BHCUC"), and Black Hills/Colorado Utility
15 Company, LLC, a Colorado limited liability company ("BHCULLC").
16 BHUC, as a general partner, and BHCULLC, as a limited partner, will acquire
17 all of the partnership interests of Aquila and Aquila Colorado in Electric Opco
18 and Gas Opco, in accordance with the terms of a Partnership Interest Purchase
19 Agreement ("PIPA") dated February 6, 2007. A copy of the PIPA as filed
20 with the SEC (i.e., without the exhibits and schedules) is attached as a
21 Schedule to the Joint Application.

1 **Q. WHAT APPROVALS ARE REQUIRED FOR THE TRANSACTIONS**
2 **CONTEMPLATED BY THE APA AND THE PIPA?**

3 A. The transactions contemplated by the APA are subject to a number of conditions,
4 including: (i) a waiver from, or the approval of, the Kansas Corporation Commission
5 under the “standstill” obligations imposed on Aquila in Docket No. 02-UTCG-701-
6 GIG (“701 Docket”); (ii) the approval of the Kansas Corporation Commission, the
7 Iowa Utilities Board, and the Nebraska Public Service Commission; (iii) the
8 expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust
9 Improvements Act of 1976, as amended; (iv) the ability of GPE and Aquila to
10 complete the Merger, which will require regulatory approval by the Kansas
11 Corporation Commission, the Missouri Public Service Commission and the FERC;
12 and (v) the absence of a material adverse effect on the businesses being acquired by
13 Black Hills, including the businesses being acquired by Black Hills under the PIPA.

14 The transactions contemplated by the PIPA are also subject to a number of
15 conditions, including: (i) a waiver from, or the approval of, the Kansas Corporation
16 Commission under the “standstill” obligations imposed on Aquila in the 701 Docket;
17 (ii) the approval of the Colorado Public Utilities Commission; (iii) the approval of the
18 FERC; (iv) the expiration or termination of the waiting period under the Hart-Scott-
19 Rodino Antitrust Improvements Act of 1976, as amended; (v) the ability of GPE and
20 Aquila to complete the Merger, which will require regulatory approval by the Kansas
21 Corporation Commission, the Missouri Public Service Commission and the FERC;
22 and (vi) the absence of a material adverse effect on the businesses being acquired by
23 Black Hills, including the businesses being acquired by Black Hills under the APA.

1 **Q. WHEN IS THE ACQUISITION TRANSACTION EXPECTED TO CLOSE?**

2 A. The APA and PIPA provide for a closing on the first Business Day on which the
3 conditions to closing have been satisfied or waived in accordance with the APA and
4 PIPA.

5 **Q. WHAT ARE THE CONDITIONS TO CLOSING?**

6 A. Among other things, (i) each transaction is conditional upon the closing of the other
7 transaction, meaning the GPE transaction will not close unless the Black Hills
8 transactions close, (ii) the transactions are subject to regulatory approval, and (iii) the
9 Merger is subject to approval by the shareholders of Aquila and GPE.

10 **Q. DO THE AGREEMENTS PROVIDE FOR TERMINATION OF THE**
11 **PROPOSED TRANSACTIONS IF THE CLOSING DOES NOT OCCUR BY A**
12 **DATE CERTAIN?**

13 A. Yes. The APA and PIPA provide that they may be terminated if the closing has not
14 occurred on or before the first anniversary of the date of the APA and PIPA which
15 will be February 6, 2008. However, upon the occurrence of certain conditions, the
16 termination date may be extended but not beyond eighteen months after the date of
17 the APA and PIPA.

18 **V. REASON FOR ACQUISITION**

19 **Q. WHY IS BLACK HILLS SEEKING TO ACQUIRE THE ASSETS OF**
20 **AQUILA, INC. IN COLORADO, IOWA, KANSAS AND NEBRASKA?**

21 A. Black Hills has a long history of commitment to providing energy-related services on
22 both the wholesale and retail level. The acquisition of Aquila's utility assets will
23 significantly add to Black Hills' regulated utility base, and improve the overall
24 balance of its diversified energy assets. Mark T. Thies, Executive Vice President and

1 Chief Financial Officer of Black Hills, will provide more detail regarding the
2 financial benefits of the acquisition transaction to Black Hills.

3 Black Hills is looking forward to welcoming Aquila's employees in all four
4 states to the Black Hills team and the opportunity to continue to deliver to Aquila's
5 customers the benefits of the reliable, clean and value-priced energy that Black Hills
6 has long been providing to its customers.

7 **VI. CUSTOMER SERVICE AND REGULATORY PHILOSOPHY**

8 **Q. WHAT IS BLACK HILLS' PHILOSOPHY IN SERVING ITS CUSTOMERS?**

9 A. We believe that customers want reliable gas and electric service at a fair and stable
10 price from a company that cares about them and their community. This is what we
11 strive for and this is the standard upon which we judge our efforts. We work hard at
12 building beneficial relationships because we recognize that the best results come from
13 effective partnerships. This is our belief and our experience supports it.

14 Black Hills is qualified by its experience and financial strength to meet all of
15 the demands associated with operating Aquila's natural gas and electric public
16 utilities. Black Hills will work to maintain the existing high quality of service
17 provided to Aquila's customers. Black Hills is an experienced provider of safe,
18 reliable, and high quality services at just and reasonable rates.

19 Black Hills has a demonstrated record of continuing to make investments in
20 utility infrastructure to ensure reliability, maintaining high levels of service, and
21 taking a proactive approach to managing the supply requirements of its customer
22 base. Black Hills has maintained an active partnership with and dedication to the
23 communities it serves. Black Hills has also demonstrated a respectful and open
24 relationship with regulators.

1 **Q. DOES BLACK HILLS HAVE ANY EVIDENCE OF CUSTOMER**
2 **SATISFACTION LEVELS?**

3 A. Yes. In 2006 Black Hills Power commissioned an independent customer survey
4 which found that 98% of Black Hills Power's customers had an overall favorable
5 opinion of the utility and that 97% of its customers agree that Black Hills Power
6 provides reliable service. In addition, surveys conducted by Black Hills Power reflect
7 the same high level of satisfaction as shown in the table below.

8 Overall Satisfaction with BHP Customer Service:
9

	2003	2004	2005
Excellent/Good	96%	97%	96%

10
11
12 New Customer Welcome Survey 2006:
13

14 Overall Satisfaction with BHP's Customer Service:
15 Excellent/Very Good/Good 98%

16
17 Black Hills Power also has high electric reliability numbers as demonstrated below.

18 Black Hills Power Reliability
19 SAIDI (System Average Interruption Duration Index):
20

	2002	2003	2004	2005	2006
Customer Minutes (excludes major storms)	71	47	72	104	71

21
22 **Q. HAS BLACK HILLS HAD EXPERIENCE IMPLEMENTING ITS**
23 **CUSTOMER SERVICE PHILOSOPHY WITH A NEWLY-ACQUIRED**
24 **PUBLIC UTILITY?**

25 A. Yes. At the time it was acquired in 2005, Cheyenne Light was suffering from
26 customer service and billing system problems, challenges with regulators, and
27 exposure to volatile purchased power and natural gas costs. In addition to
28 commencing construction of Wygen II, Black Hills created and successfully

1 implemented an aggressive plan that dramatically improved customer service and
2 satisfaction, improved relations with regulators, and improved natural gas
3 procurement and supply. In addition, Black Hills directed the preparation of an
4 Integrated Resource Plan that ultimately led to Cheyenne Light receiving a Certificate
5 of Public Convenience and Necessity from the Wyoming Public Service Commission
6 to begin construction of Wygen II.

7 In the customer service area, Black Hills increased the number of personnel
8 available to serve customers. For example, we added additional management staff in
9 Cheyenne, including a Director of Customer Service, a Customer Service Supervisor,
10 a Manager of Meter Reading and Collections, two Customer Service Representatives,
11 and a Collection Representative. We also provided substantial training to employees
12 to allow them to work more efficiently and effectively with, and on behalf of, our
13 customers.

14 **Q. DID THOSE CHANGES RESULT IN QUANTIFIABLE CUSTOMER**
15 **SERVICE IMPROVEMENTS?**

16 A. Yes. At the time of our acquisition, customer wait times for hook-up of new services
17 were typically in the range of three months. Today, wait times for hook-up of new
18 services are typically in the range of three to four weeks. The monthly average speed
19 in answering calls was about 20 minutes; now it is about 90 seconds. The wait time
20 that walk-in customers were experiencing was over an hour to see a Customer Service
21 Representative; now it is just over 3 minutes. Finally, the number of calls abandoned
22 by calling parties exceeded sixty percent of total calls. Today, it is down to less than
23 ten percent, and continuing to improve.

1 **Q. WERE OPERATIONAL CHANGES ALSO MADE?**

2 A. Yes. In the Natural Gas Division, Cheyenne Light already had an experienced gas
3 group in place; however, we thought additional focus would cost-effectively improve
4 customer service, safety, and reliability. We added five new positions in Cheyenne to
5 improve our local gas expertise. They include a gas engineer, two gas operations
6 supervisors, a construction services technician, and a director of gas operations. As to
7 gas procurement, Cheyenne Light's prior owner utilized only index-priced supply
8 contracts along with gas storage. Supply costs were largely driven by monthly
9 market prices. We adopted a gas procurement policy that provides for more price
10 stability for our customers by relying on index priced supply contracts, forward fixed-
11 price contracts for a portion of the winter gas supply, and gas storage.

12 In the Electric Division, Cheyenne Light had no generation facilities of its
13 own and relied exclusively on purchase power agreements. Its previous full
14 requirements contract expired at the end of December 2000 during times of
15 unprecedented instability in supply and price in the wholesale electric energy market
16 in the Western United States. Prices per MWh formerly available to Cheyenne Light
17 at about \$30 per MWh sometimes exceeded \$1,000 per MWh during this time. The
18 replacement all requirements contract with PSCo in January 2001 was at prices lower
19 than market but higher than Cheyenne Light had ever experienced. Black Hills
20 conducted an integrated resource planning process for Cheyenne Light and Black
21 Hills Power that ultimately concluded that construction of the Wygen II Plant was the
22 best resource alternative for Cheyenne Light to provide safe, economic and reliable
23 power over the long-term using a proven type of power supply. A certificate of

1 public convenience and necessity for the Wygen II Plant was granted by Order of the
2 Public Service Commission of Wyoming issued on August 19, 2005.

3 **Q. WILL BLACK HILLS' CUSTOMER SERVICE PHILOSOPHY ALSO BE**
4 **APPLIED TO THE NEW BLACK HILLS UTILITIES?**

5 A. Yes. This will be our goal. We are looking forward to the opportunity to be of
6 service to the customers of Aquila in Colorado, Iowa, Kansas and Nebraska.

7 **Q. WHAT IS BLACK HILLS' RELATIONSHIP WITH REGULATORS?**

8 A. Black Hills has a respectful and open relationship with regulators. In the Order
9 granting Black Hills the certificate of public convenience and necessity for the
10 Wygen II Plant, the Wyoming Public Service Commission found that the Wygen II
11 Plant was "a well conceived project capable of being successfully constructed and
12 placed into service for the benefit of the customers of Cheyenne Light" and that the
13 presentation of factual demonstrations required by the Commission's Rules was
14 "comprehensive and professionally executed" and "left no issue unaddressed." The
15 Commission also noted the testimony at the public hearing of Dr. Thomas Schroeder
16 of the Industrial Siting Division of the Wyoming Department of Environmental
17 Quality who testified that he found the company to be "forthright, diligent and
18 conscientious in its dealings with the Division" and noted that "company employees
19 working with the Division were empowered to make decisions and thereby to
20 facilitate the process." Black Hills intends to bring the same approach to working
21 with all regulators.

1 **VII. TRANSITION SERVICES**

2 **Q. IS A TRANSITION SERVICES AGREEMENT IN PLACE?**

3 A. Yes. Black Hills and GPE have entered into a Transition Services Agreement
4 (“TSA”), attached as a Schedule to the Joint Application, designed to address any
5 transition issues that arise post-closing. Some schedules to the TSA are still being
6 perfected. The TSA will ensure, for example, that Black Hills continues to have
7 access to Aquila’s utility business records following the closing. During its
8 acquisition of Cheyenne Light in early 2005 Black Hills successfully executed a
9 similar transition plan for the retention of employees and maintenance of customer
10 service.

11 **Q. WHAT STEPS HAVE BEEN TAKEN TO ENSURE A SMOOTH**
12 **TRANSITION?**

13 A. Aquila, GPE, and Black Hills have established a pre-closing transition team of
14 employees from all three companies to provide for a smooth transition of operations.
15 Black Hills understands fully its commitment to attract, maintain, and support highly
16 qualified employees needed to continue the level of customer service, accounting,
17 billing, and system support currently provided to customers.

18 Black Hills’ transition team consists of eleven individuals who have been
19 assigned to the team full time for a year commencing in March, 2007. For most of
20 them, their existing positions will be managed by their immediate assistants. I am
21 heading the Black Hills transition team. We are holding regional meetings with
22 Aquila and GPE to familiarize ourselves with each state’s operations, pending
23 regulatory matters, and matters that will need to be addressed both in the short term
24 and in the long term. The Black Hills transition team is making assessments and

1 developing plans for each Aquila utility to ensure a smooth transition. Black Hills
2 will draw on its utility experience in addressing the issues facing each utility and will
3 invest the necessary resources to address those issues.

4 Aquila and Black Hills have structured the proposed transaction so as to avoid
5 unnecessary adverse consequences to customers and employees of the utilities. There
6 will be no disruptive workforce reductions associated with the transaction. Black
7 Hills expects to employ Aquila's state-based leadership and operations support staff
8 employees within Colorado, Iowa, Kansas, and Nebraska. In Nebraska, for example,
9 that support staff includes, but is not limited to, the employees located in Omaha's
10 regulatory, gas supply and load monitoring, gas engineering, large volume billing,
11 and information technology departments. In addition to that support staff, Black Hills
12 intends to retain the support staff located in Lincoln for its call center and field
13 resource center, as well as other departments. Black Hills also intends to retain the
14 support staff located at Aquila's meter and measurement shops in Council Bluffs,
15 Iowa. This personnel as well as others will be employed by Black Hills to effectively
16 meet its operations and customer service obligations. Black Hills has also purchased
17 the rights to Aquila's current billing and customer data systems along with several
18 other key information technology systems to facilitate the transition of customers
19 from Aquila to Black Hills. Accordingly, Black Hills expects a seamless transition.

20 **Q. WHAT FACTORS WILL HELP ENSURE A SMOOTH TRANSITION?**

21 A. Black Hills and Aquila operate in adjacent states. The customers Aquila serves in the
22 cities of Lawrence and Wichita, Kansas are comparable in number and type to the
23 customers Black Hills serves in Cheyenne, Wyoming. Like Aquila, Black Hills has
24 experience in serving rural areas and communities. The customer demographics of

1 Black Hills and Aquila are also similar. Most important, Black Hills is offering
2 employment to all of Aquila’s field operations and field customer-service employees
3 so that the institutional knowledge of Aquila’s gas and electric distribution systems
4 remains intact, ensuring that customers will continue to receive safe and reliable
5 service.

6 **VIII. PLAN OF OPERATIONS**

7 **Q. DOES AQUILA HAVE ANY COLLECTIVE BARGAINING AGREEMENTS?**

8 A. Yes. Aquila has union employees in all four of the states in which Black Hills is
9 acquiring assets.

10 **Q. WHAT ARE BLACK HILLS’ PLANS REGARDING THE COLLECTIVE**
11 **BARGAINING AGREEMENTS?**

12 A. Black Hills will assume all collective bargaining agreements.

13 **Q. DOES BLACK HILLS INTEND TO HIRE ANY ADDITIONAL**
14 **EMPLOYEES?**

15 A. Yes. Black Hills is presently reviewing its options for strengthening its various
16 functions; however, it will likely provide for additional employee talent in its Omaha,
17 Nebraska, natural gas operation headquarters, its Lincoln, Nebraska, call center, and
18 in its Rapid City, South Dakota headquarters.

19 **Q. WHAT IMPACT WILL THE PROPOSED TRANSACTION HAVE ON THE**
20 **ECONOMY AND LOCAL COMMUNITIES IN THE STATES WHERE THE**
21 **NEW BLACK HILLS UTILITIES ARE LOCATED?**

22 A. The proposed transaction will benefit the economy and local communities where the
23 new Black Hills utilities are located. As discussed earlier, Black Hills will be offering
24 employment to all of Aquila’s field operations and field customer-service employees

1 with the intention that the same people will be providing the same services from the
2 same locations. In any transaction, this upfront commitment to provide operational
3 continuity provides the benefit of eliminating uncertainty for the employees and our
4 customers and helps stabilize relationships. Black Hills understands what it means to
5 serve utility customers located in rural areas and small towns and will continue to
6 deliver the high quality of service that customers expect and deserve. Black Hills will
7 bring its long history of active partnership and dedication to the local communities
8 that Black Hills will serve. Black Hills, like Aquila, believes strongly in supporting
9 the communities in which it provides utility service and takes part in regional
10 economic and community development through active participation in local
11 organizations. Its employees participate in many civic groups, leadership activities,
12 and local fund-raising efforts. Black Hills plans to continue such efforts to assist the
13 local communities it will serve.

14 **Q. DOES BLACK HILLS HAVE ANY PLANS TO CHANGE BASE RATES OR**
15 **TARIFF PROVISIONS?**

16 A. Upon consummation of the transaction, BH Kansas Gas will adopt Aquila's approved
17 tariff rates and rules and regulations presently on file with the Kansas Corporation
18 Commission, which may be changed from time to time with approval from the
19 Commission. BH Kansas Gas will continue to provide natural gas service to Aquila's
20 customers in accordance with such tariff rates and rules and regulations and continue
21 to furnish safe and reliable service and facilities at just and reasonable rates.

1 **Q. WILL THE NAMES OF THE NEW BLACK HILLS UTILITIES BE**
2 **CHANGED?**

3 A. The trade names under which each new Black Hills utility will do business will be
4 evaluated later this year and determined at that time.

5 **Q. WILL ANY LOCAL OFFICES BE CLOSED?**

6 A. We do not anticipate closing any local offices at this time.

7 **Q. WHAT IS BLACK HILLS' POLICY ON CAPITAL EXPENDITURES?**

8 A. Black Hills has always maintained a strong commitment to provide safe, reliable and
9 high-quality service to its customers and will make the capital expenditures necessary
10 to meet this commitment for the new Black Hills utilities.

11 **Q. WILL BLACK HILLS ADOPT THE EXISTING QUALITY OF SERVICE**
12 **STANDARDS OF REPORTING REQUIREMENTS THAT ARE**
13 **CURRENTLY IN PLACE FOR AQUILA'S KANSAS GAS OPERATIONS?**

14 A. Yes. In order to assure that Black Hills and BH Kansas Gas will maintain a high
15 level of quality of service to its Kansas natural gas customers, Black Hills and BH
16 Kansas Gas agree to adopt the quality of service standard reporting requirements and
17 provisions relating to those requirements that are currently in place for Aquila's
18 Kansas natural gas operations. Black Hills and BH Kansas Gas will have the ability
19 to track the information necessary to complete the quarterly quality of service report
20 that Aquila currently files with the Commission in the 701 Docket. A copy of the
21 most recent report is attached as a Schedule to the Joint Application.

22 **Q. IS THIS TRANSACTION IN THE PUBLIC INTEREST?**

23 A. Yes, for all of the reasons that have presented in the Joint Application and supporting
24 testimony, this transaction is in the public interest.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes, it does.

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AFFIDAVIT

STATE OF SOUTH DAKOTA)
) ss
COUNTY OF PENNINGTON)

I, Linden R. Evans, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing prepared testimony, that I have read the testimony and I am familiar with its contents, and that the facts set forth are true to the best of my knowledge, information and belief.

Linden R. Evans

Subscribed and sworn to before me this 3rd day of April, 2007.



LueAnn Steckler
Notary Public, South Dakota

My commission expires: 06-23-2011

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

**In the Matter of the Joint Application of)
Aquila, Inc., d/b/a Aquila Networks - KGO,)
Black Hills Corporation and Black)
Hills/Kansas Gas Utility Company, LLC)
("BH/Kansas Gas"), Joint Applicants, for an)
Order Approving the Transfer to BH/Kansas)
Gas of Aquila's Certificates of Convenience)
and Necessity and Franchises with Respect to)
all of Aquila's Kansas Natural Gas Business,)
Including its Transmission and Distribution)
Facilities Located in the State of Kansas, and)
for Other Related Relief.)**

Docket No. 07-_____ - _____-ACQ

STATE CORPORATION COMMISSION

APR 04 2007

 **Docket
Room**

DIRECT TESTIMONY OF THOMAS M. OHLMACHER

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Thomas M. Ohlmacher. My business address is 350 Indiana Street Suite
4 400 Golden, Colorado 80401. I am employed by Black Hills Corporation (“Black
5 Hills”) as the President and Chief Operating Officer of Black Hills Energy, Inc.
6 (“Black Hills Energy”), the wholesale segment of Black Hills.

7 **Q. WHAT IS YOUR EDUCATIONAL, TRAINING AND EMPLOYMENT**
8 **BACKGROUND?**

9 A. I graduated from the South Dakota School of Mines and Technology in 1974 with a
10 Bachelor of Science degree in Chemistry. Since graduating from the School of
11 Mines, I have been employed in numerous positions by Black Hills and its
12 subsidiaries during my 33 years with the company. Although not currently assigned
13 to the retail segment of Black Hills, a substantial majority of my career has been spent
14 serving the retail segment and meeting its energy resource needs, including holding
15 management positions with one of Black Hills’ retail electric utilities, Black Hills
16 Power, Inc. (“Black Hills Power”).

17 **Q. WHAT WERE THOSE POSITIONS?**

18 A. From 1974 to 1976, I served as a results engineer for Black Hills Power’s plants.
19 From 1977 to 1986 I served at the Kirk Plant near Lead, South Dakota, all but the
20 first year as Plant Manager. From 1987 to 1990, I was assigned to the position of
21 Manager of Planning for Black Hills Power. My responsibilities included resource
22 and transmission planning which involved, the evaluation of life extension and re-
23 powering options for existing plants, coordinating the transmission planning for
24 Black Hills Power, and organizing the joint transmission planning group between

1 Basin Electric Power Cooperative (“Basin Electric”) and Black Hills Power. I
2 assisted in the preparation of annual utility resource plans for capacity and energy
3 requirements, and the preparation of load forecasts. From 1990 to 1992, I served as
4 the Director of Electric Operations and Engineering. My responsibilities included
5 coordinating transmission planning for the transmission system and assisting the
6 efforts and resources to support the distribution planning. I also was responsible for
7 overseeing and managing the electric operations dispatch and outage restoration
8 department, referred to as System Control. In 1992 I assumed the role as Project
9 Manger for construction of the 80 megawatt (MW) coal-fired Neil Simpson II power
10 plant. During this period I also assumed the responsibilities of directing all the
11 generation of Black Hills Power. From 1994 through 2000, I was Vice President of
12 Power Supply with duties that included all resource management and electric
13 marketing for Black Hills Power. From November 2001 to the present I have been
14 the President and Chief Operating Officer of Black Hills Energy where my
15 responsibilities include management of the businesses of subsidiaries engaged in
16 wholesale energy production and marketing activities as described in more detail later
17 in my testimony. I also coordinated the development of the 2005 Integrated Resource
18 Plan for Cheyenne Light, Fuel and Power Company (“Cheyenne Light”), Black Hills’
19 other retail public utility.

20 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES?**

21 A. I am responsible for all of the activities of Black Hills Energy. I am also responsible
22 for the power supply and power marketing for Black Hills Power.

1 **II. PURPOSE OF TESTIMONY**

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

3 A. I will provide information regarding the direct and indirect non-utility subsidiaries of
4 Black Hills. I will discuss the experience of Black Hills' direct and indirect
5 subsidiaries in generation, transmission, distribution, and wholesale power marketing
6 (including firm and full requirements contracts). I will also discuss Black Hills'
7 experience meeting the power needs of utilities including working with the Western
8 Area Power Administration, the Western Electricity Coordinating Council, and the
9 Rocky Mountain Reserve Group. Finally, I will discuss Black Hills' experience with
10 natural gas procurement and renewable energy.

11 **III. NON-UTILITY SUBSIDIARIES OF BLACK HILLS CORPORATION**

12 **Q. PLEASE GIVE AN OVERVIEW OF BLACK HILLS ENERGY.**

13 A. Black Hills Energy is one of six wholly-owned direct subsidiaries of Black Hills. The
14 others are the two utility subsidiaries, Black Hills Power and Cheyenne Light, and the
15 service company, Black Hills Service Company, LLC. Black Hills conducts its
16 wholesale energy production and marketing business through Black Hills Energy.

17 Black Hills Energy is a South Dakota corporation headquartered in Golden,
18 Colorado. Black Hills Energy is an intermediate holding company for subsidiaries
19 engaged in power production, oil and gas exploration and production, coal mining,
20 and energy marketing and transportation. Pages 2 and 3 of the Black Hills
21 organizational chart attached as a Schedule to the Joint Application lists the
22 subsidiaries of Black Hills Energy.

1 **Q. WHAT ARE THE DIRECT SUBSIDIARIES OF BLACK HILLS ENERGY?**

2 A. Black Hills Energy has six wholly owned direct subsidiaries: Black Hills Generation,
3 Inc. (“Black Hills Generation”), Wyodak Resources Development Corp. (“Wyodak
4 Resources”), Black Hills Exploration and Production, Inc. (“BHEP”), Enserco
5 Energy, Inc. (“Enserco”), Black Hills Midstream, LLC (“BH Midstream”), and Black
6 Hills Energy Resources, Inc. (“BHER”).

7 **Q. PLEASE DESCRIBE THE BUSINESS OF BLACK HILLS GENERATION.**

8 A. Black Hills Generation is a Delaware corporation headquartered in Golden, Colorado.
9 Through its subsidiaries it owns and operates approximately 978 MW of unregulated
10 generating capacity located in Colorado, Nevada, Wyoming, California, and Idaho.
11 Information about the generation plants is shown in the following table.

Plant	Location	Fuel Type	Total Capacity (MW)	Black Hills’ Interest	Net Capacity (MW)
Fountain Valley	CO	Gas	240.0	100%	240.0
Arapahoe	CO	Gas	130.0	100%	130.0
Valmont	CO	Gas	80.0	100%	80.0
Las Vegas I	NV	Gas	53.0	100%	53.0
Las Vegas II	NV	Gas	224.0	100%	224.0
Gillette CT	WY	Gas	40.0	100%	40.0
Wygen I	WY	Coal	90.0	100%	90.0
Ontario	CA	Gas	12.0	100%	12.0
Harbor Cogeneration	CA	Gas	98.0	100%	98.0
Rupert	ID	Gas	11.0	50%	5.5
Glenns Ferry	ID	Gas	11.0	50%	5.5
TOTAL			989.0		978.0

12
13 Black Hills Generation also owns investments in power-related funds with a net
14 ownership interest of approximately 11 MW. Black Hills Generation sells wholesale
15 capacity and energy under a combination of mid to long-term contracts, which helps
16 to mitigate the impact of a potential downturn in power prices in the future. Black
17 Hills Generation significantly reduces its financial exposure in the power generation

1 segment by selling a majority of its unregulated capacity under “tolling” agreements,
2 or agreements under which the power purchaser is responsible for supplying the fuel
3 for the facility, thereby assuming the fuel price risk. The contracted purchasers of
4 capacity and energy from Black Hills Generation’s facilities are primarily load-
5 serving utility companies.

6 **Q. PLEASE DESCRIBE THE BUSINESS OF WYODAK RESOURCES.**

7 A. Wyodak Resources is a Delaware corporation headquartered in Rapid City, South
8 Dakota, but its principal place of business is in Gillette, Wyoming. Wyodak
9 Resources’ coal mining business mines and processes low-sulfur, sub-bituminous
10 coal at the Wyodak coal mine near Gillette, Wyoming. The Wyodak mine has
11 approximately 55 years of coal reserves at current production levels, and is the oldest
12 continually operating coal mine in Wyoming’s Power River Basin. The majority of
13 the coal produced at the Wyodak mine is sold to on-site, mine-mouth generation
14 facilities. They include Black Hills Power, Black Hills Wyoming, and Rocky
15 Mountain Power (formerly known as PacifiCorp). Wyodak Resources is expanding
16 the capability of the Wyodak mine to increase production and provide fuel for
17 Cheyenne Light’s base-load, coal-fired power plant, Wygen II, currently under
18 construction. Wygen II will become the fifth mine-mouth, coal-fired power plant to
19 be located at Wyodak Resource’s coal mine.

20 **Q. PLEASE DESCRIBE THE BUSINESS OF BHEP.**

21 A. BHEP is a Wyoming corporation and a wholly owned subsidiary of Black Hills
22 Energy. It is headquartered in Golden, Colorado. BHEP’s oil and gas exploration
23 and production business is involved in the acquisition, exploration, development, and
24 production of crude oil and natural gas. As of December 31, 2006, BHEP held

1 operated and non-operated interests in oil and gas properties in several states in the
2 western United States. BHEP also owns and operates natural gas gathering pipeline
3 systems, along with associated gas compression and treating facilities.

4 **Q. PLEASE DESCRIBE THE BUSINESS OF ENSERCO.**

5 A. Enserco is a South Dakota corporation and a wholly owned subsidiary of Black Hills
6 Energy. Enserco is headquartered in Golden, Colorado. Enserco's energy marketing
7 business markets natural gas and crude oil in regions of the United States and Canada.
8 It engages in physical and financial wholesale energy marketing, storage, and
9 transportation services. Enserco also offers price risk management products and
10 services to customers, including natural gas distribution companies, municipalities,
11 industrial users, oil and gas producers, electric utilities, other energy marketers, and
12 retail gas users. Enserco holds, under contract, both short and long-term natural gas
13 storage and transportation capacity on several major pipelines in the western and mid-
14 continent regions of the United States and in Canada. Enserco's operations are
15 conducted in accordance with guidelines established through separate credit and risk
16 management policies and procedures. Enserco maintains a separate credit facility that
17 provides security interests limited to the assets of Enserco. As of December 31, 2006,
18 there were no parent company guarantees for Enserco.

19 **Q. PLEASE DESCRIBE THE BUSINESSES OF BH MIDSTREAM AND BHER.**

20 A. BH Midstream is a South Dakota limited liability company which holds natural gas
21 gathering pipeline systems used in connection with BHEP. BHER is a South Dakota
22 corporation which formerly owned and operated crude oil pipelines and a crude oil
23 marketing business. Black Hills sold all the assets and operations of BHER in March
24 2006.

1 **IV. EXPERIENCE MEETING UTILITY POWER AND GAS NEEDS**

2 **Q. WHAT EXPERIENCE DOES BLACK HILLS HAVE MEETING THE**
3 **POWER REQUIREMENTS OF UTILITIES?**

4 A. In addition to the experience of Black Hills Generation already described earlier in
5 my testimony, Black Hills, through its utility subsidiary Black Hills Power, has
6 experience (i) constructing, owning and operating generation facilities and
7 transmission and distribution facilities, and (ii) providing wholesale service to other
8 utilities including firm power and full requirements service. Indirect subsidiaries of
9 Black Hills also have experience with providing wholesale service and experience
10 with the competitive bidding processes. Both Black Hills Power and its affiliates
11 have experience working with the Western Area Power Administration (“WAPA”).
12 Black Hills thus has the broad range of experience necessary to address long-term
13 power and transmission needs.

14 **Q. WHAT IS WAPA?**

15 A. WAPA is one of four power marketing administrations within the U.S. Department of
16 Energy. It operates within a 15-state region of the central and western United States,
17 including Colorado, Iowa, northeastern Kansas, Nebraska, South Dakota, and
18 Wyoming.

19 **Q. WHAT IS BLACK HILLS HAVE EXPERIENCE WORKING WITH WAPA?**

20 A. Cheyenne Light is a network transmission customer of WAPA for its utility
21 services and has worked with WAPA on integration of control area services for its
22 energy delivery beginning in 2008. Cheyenne recently worked with WAPA to
23 integrate renewable energy from a wind generation project into the delivery plan. In

1 addition, Black Hills Power’s loads and resources are included in the generation
2 dispatch and reliability control area of WAPA.

3 **Q. WHAT IS THE NORTH AMERICAN ELECTRIC RELIABILITY**
4 **CORPORATION?**

5 A. The North American Electric Reliability Corporation (“NERC”) is a nonprofit
6 corporation which was formed on March 28, 2006. It is the successor to the North
7 American Electric Reliability Council which was formed on June 1, 1968, by the
8 electric utility industry to promote the reliability and adequacy of bulk power supply
9 in the electric utility systems of North America. NERC’s mission is to “ensure that
10 the bulk electric system in North America is reliable, adequate and secure.” NERC
11 oversees nine regional reliability councils and encompasses all of the interconnected
12 power systems of the contiguous United States.

13 **Q. WHAT IS THE WESTERN ELECTRICITY COORDINATING COUNCIL?**

14 A. The Western Electricity Coordinating Council (“WECC”) is one of the nine regional
15 electric reliability councils under NERC. The WECC region covers the entire
16 Western Interconnection which includes the states of Colorado, Wyoming, South
17 Dakota, and other states.

18 **Q. WHAT EXPERIENCE DOES BLACK HILLS HAVE WITH WECC?**

19 A. In addition to being a member, Black Hills actively participates in the marketing and
20 reliability committees of the WECC.

21 **Q. WHAT IS THE ROCKY MOUNTAIN RESERVE GROUP?**

22 A. The Rocky Mountain Reserve Group (“RMRG”) is a group made up of the generation
23 divisions of electric utilities in Colorado and eastern Wyoming that cooperate in

1 sharing generation reserve for the purpose of reducing cost and improving reliability
2 in the Rocky Mountain region.

3 **Q. WHAT EXPERIENCE DOES BLACK HILLS HAVE WITH RMRG?**

4 A. Black Hills Power is a member of RMRG and our generation dispatch office is
5 equipped with direct communications systems to directly respond to and to assist
6 regional utilities if unexpected power plant outages occur. I currently serve on the
7 board of directors of RMRG, and Black Hills' technical staff actively participate in
8 RMRG's activities which include sharing generation resources to cover plant outages,
9 ensuring generation reliability, and developing policy and compliance procedures.

10 **Q. WHAT IS BLACK HILLS' EXPERIENCE WITH NATURAL GAS**
11 **PROCUREMENT?**

12 A. Cheyenne Light is a Wyoming-regulated gas and electric public utility. Cheyenne
13 Light provides natural gas service to both distribution service customers and to
14 transportation customers. Cheyenne Light purchases natural gas from independent
15 suppliers delivered through transportation contracts with interstate pipelines and
16 through deliveries by suppliers directly to certain transportation customers.

17 Additionally, Black Hills, through Black Hills Energy and its subsidiaries, has
18 natural gas procurement and risk management experience as well as gas
19 transportation, storage and administrative experience.

20 Finally, there is no planned change in the Aquila personnel involved in natural
21 gas distribution service including maintenance and repair of the distribution system.

1 **Q. WHAT IS BLACK HILLS' EXPERIENCE WITH RENEWABLE ENERGY?**

2 A. Cheyenne Light recently entered into a contract to purchase 30 MW of renewable
3 wind energy from the Happy Jack Wind Project located on city owned property in
4 Cheyenne, beginning in the summer of 2008.

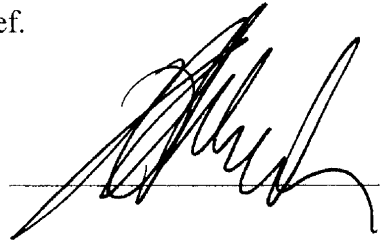
5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes, it does.

AFFIDAVIT

STATE OF COLORADO)
) ss
COUNTY OF JEFFERSON)

I, Thomas M. Ohlmacher, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing prepared testimony, that I have read the testimony and I am familiar with its contents, and that the facts set forth are true to the best of my knowledge, information and belief.



Subscribed and sworn to before me this 3rd day of April, 2007.

Carol J. Hughes
Notary Public, State of Colorado

My commission expires: 12-15-2008