

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-BHCG-1063-ACQ

STATE CORPORATION COMMISSION

JUL 03 2007

 Docket
Room

SUPPLEMENTAL DIRECT TESTIMONY OF MARK T. THIES

*** PUBLIC VERSION ***

1 **I. INTRODUCTION**

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

3 A. My name is Mark T. Thies. My business address is 625 Ninth Street, P.O. Box 1400, Rapid
4 City, South Dakota 57709. I am Executive Vice President and Chief Financial Officer of
5 Black Hills Corporation ("Black Hills"). I also serve as Executive Vice President and Chief
6 Financial Officer of Black Hills' subsidiaries.

7 **Q. HAVE YOU ALREADY FILED DIRECT TESTIMONY IN THIS DOCKET THAT**
8 **CONTAINS YOUR EDUCATIONAL AND BUSINESS BACKGROUND AND**
9 **CURRENT JOB RESPONSIBILITIES?**

10 A. Yes. I previously submitted direct testimony that was part of the Joint Application that was
11 filed in this docket on April 4, 2007. That direct testimony includes information relating to
12 my educational and business background and current job responsibilities.

13 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?**

14 A. My supplemental direct testimony covers the following issues:

15 (1) the calculation of the estimated acquisition premium, transition costs and
16 transaction costs relating to Black Hills' acquisition of Aquila, Inc.'s ("Aquila") gas utility
17 assets in Kansas, Iowa, Nebraska, and Colorado, Aquila's electric utility assets in Colorado and
18 certain shared assets assigned to Black Hills (collectively referred to as "Acquired Utility
19 Assets");

20 (2) the allocation of the estimated acquisition premium, transition costs and
21 transaction costs to each state utility operation;

22 (3) the calculation of the savings Black Hills expects to achieve as a result of its
23 acquisition of the Acquired Utility Assets;

1 (4) the plan to recover the acquisition premium, the transaction costs and the
2 transition costs;

3 (5) the pro-forma financial information of Black Hills after Black Hills' acquisition
4 of the Acquired Utility Assets; and

5 (6) the pro-forma financial information of BH Kansas Gas after Black Hills'
6 acquisition of the Acquired Utility Assets.

7 **II. CALCULATION OF THE ESTIMATED ACQUISITION**
8 **PREMIUM, TRANSITION COSTS AND TRANSACTION COSTS**

9 **Q. PLEASE DEFINE THE TERMS "ACQUISITION PREMIUM," "TRANSITION**
10 **COSTS" AND "TRANSACTION COSTS" AS THOSE TERMS ARE USED IN YOUR**
11 **TESTIMONY?**

12 A. As used in my testimony, the term "acquisition premium" means the difference between the
13 Final Purchase Price, as that term is defined in the Asset Purchase Agreement dated February
14 6, 2007, by and among Aquila, Black Hills, Great Plains Energy Incorporated ("Great Plains")
15 and Gregory Acquisition Corp. ("APA") and the assets and liabilities as defined under the
16 APA. The term "transition costs" means the costs incurred by Black Hills to obtain all of the
17 regulatory approvals of Black Hills' acquisition of the Acquired Utility Assets. The term
18 "transaction costs" means the costs incurred by Black Hills, other than the costs incurred to
19 obtain all of the necessary regulatory approvals, to complete the transaction involving Black
20 Hills' acquisition of the Acquired Utility Assets.

21 **Q. WHAT IS THE ESTIMATED ACQUISITION PREMIUM BEING PAID BY BLACK**
22 **HILLS TO ACQUIRE THE ACQUIRED UTILITY ASSETS FROM AQUILA?**

23 A. The estimated acquisition premium being paid by Black Hills to acquire the Acquired Utility

1 Assets from Aquila is approximately * * .

2 **Q. WHAT ARE THE ESTIMATED TRANSITION COSTS THAT BLACK HILLS**
3 **EXPECTS TO INCUR?**

4 A. Black Hills estimates that the transition costs will be approximately * * .

5 **Q. WHAT ARE THE ESTIMATED TRANSACTION COSTS THAT BLACK HILLS**
6 **EXPECTS TO INCUR?**

7 A. Black Hills estimates that the transaction costs will be approximately * * .

8 **III. ALLOCATION OF THE ESTIMATED ACQUISITION PREMIUM,**
9 **TRANSITION COSTS AND TRANSACTION COSTS**

10 **Q. HAS BLACK HILLS ALLOCATED THE ESTIMATED ACQUISITION PREMIUM,**
11 **TRANSITION COSTS AND TRANSACTION COSTS TO EACH STATE UTILITY**
12 **OPERATION?**

13 A. Yes. We have preliminary allocations to each of the state utilities that are being created as part
14 of the transaction. These allocations are subject to final accounting at the time of closing.

15 **Q. CAN YOU IDENTIFY SCHEDULE 26 TO THE JOINT APPLICATION?**

16 A. Yes. Schedule 26 to the Joint Application shows the allocation of the estimated acquisition
17 premium, transition costs and transaction costs to each state utility operation, including the
18 costs allocated to Kansas. The total amount of the acquisition premium, transition costs and
19 transaction costs allocated to Kansas is approximately * * .

20 **Q. PLEASE EXPLAIN HOW BLACK HILLS ALLOCATED THE ESTIMATED**
21 **ACQUISITION PREMIUM, TRANSITION COSTS AND TRANSACTION COSTS TO**
22 **EACH STATE UTILITY OPERATION?**

23 A. Black Hills utilized six factors to allocate acquisition premium, transition costs and transaction

1 costs. The factors are commonly used to value companies and included both actual and
2 projected amounts. The factors are EBITDA, Utility Operating Income, Net Property, Plant
3 and Equipment, Gross Margin, Rate Base, and Number of Customers.

4 **Q. IS THE MANNER IN WHICH BLACK HILLS ALLOCATED THE ESTIMATED**
5 **ACQUISITION PREMIUM, TRANSITION COSTS AND TRANSACTION COSTS TO**
6 **EACH STATE UTILITY OPERATION REASONABLE IN YOUR OPINION?**

7 A. Yes. The factors represent several characteristics of each state utility operation which are
8 characteristically used to evaluate business opportunities. As a result, I believe the allocations
9 are reasonable and fair to Kansas consumers and do not have any particular bias that would
10 create an unjust result.

11 **IV. CALCULATION OF THE SAVINGS BLACK HILLS**
12 **EXPECTS TO ACHIEVE AS A RESULT OF ITS**
13 **ACQUISITION OF THE ACQUIRED UTILITY ASSETS**

14 **Q. HOW ARE YOU DEFINING SAVINGS FOR THE PURPOSE OF THIS CASE?**

15 A. When I use the term "savings" in the context of this case, I am referring to Black Hills' belief
16 that it will be able to provide natural gas and electric service in the states where the Acquired
17 Utility Assets are located at a cost (i.e., revenue requirements) less than what Aquila projected
18 it would experience absent the acquisition. The difference between 1) Aquila's projected
19 revenue requirements, and 2) Black Hills' projected revenue requirements is referred to herein
20 as "savings."

21 **Q. PLEASE IDENTIFY WHAT IS ATTACHED TO YOUR TESTIMONY AS**
22 **CONFIDENTIAL EXHIBIT MTT-4?**

23 A. Confidential Exhibit MTT-4 is a copy of the confidential financial presentation made by
24 Aquila's investment bankers to Aquila's board of directors on November 1, 2006, during

1 Aquila's due diligence review of the asset purchase transaction. The Aquila projections were
2 prepared as part of the sale process and were provided to potential bidders for their use in
3 valuing the Aquila assets. Black Hills extracted certain financial information from this
4 financial presentation in order to establish a benchmark against which cost savings would be
5 measured and in order to perform Black Hills' preliminary cost-benefit analysis, which was
6 attached to my direct testimony as Confidential Exhibit MTT-3. Confidential Exhibit MTT-4
7 was the starting point for Black Hills' projected savings calculation.

8 **Q. PLEASE IDENTIFY WHAT IS ATTACHED TO YOUR TESTIMONY AS**
9 **CONFIDENTIAL EXHIBIT MTT-5?**

10 A. Confidential Exhibit MTT-5 is an updated analysis showing the projected savings in the cost
11 of providing service to the acquired Kansas customers.

12 **Q. CAN YOU EXPLAIN HOW THE PROJECTED SAVINGS IN THE COST OF**
13 **PROVIDING SERVICE TO THE ACQUIRED KANSAS CUSTOMERS WERE**
14 **DETERMINED?**

15 A. As part of its due diligence in preparing a proposal to acquire the Aquila utility assets, Black
16 Hills assessed Aquila's projected costs and then prepared its own projections of costs it
17 believed would be necessary to successfully operate the acquired properties. Black Hills
18 prepared its projections with the assistance of Bridge Strategy Group, a consulting firm with
19 expertise in assisting companies with ownership transitions. As part of the transition, Black
20 Hills is continuing to evaluate the required corporate support levels necessary to successfully
21 integrate and operate the acquired utility properties. The projections I have included as part
22 of my supplemental testimony are the most current estimates.

23 **Q. IN YOUR OPINION COULD THE PROJECTED SAVINGS RELATED TO THE**

1 **PROPOSED TRANSACTION BE ACHIEVED BY AQUILA ABSENT THE**
2 **TRANSACTION?**

3 A. No. The projections of Aquila represent the costs that were expected as a stand alone
4 business and include changes that could reasonably be made to make the corporation more
5 efficient in its delivery of corporate support services. In my opinion, only a change in
6 ownership will allow for the restructuring of costs that can result in the level of savings that
7 Black Hills is forecasting for its Kansas gas utility operations.

8 **V. PLAN TO RECOVER THE ACQUISITION PREMIUM,**
9 **THE TRANSACTION COSTS AND THE TRANSITION COSTS**

10 **Q. CAN YOU IDENTIFY SCHEDULE 27 TO THE JOINT APPLICATION?**

11 A. Yes. Schedule 27 to the Joint Application provides a summary of Black Hills' proposed plan
12 to recover the Kansas allocated acquisition premium, transaction costs and transition costs.
13 The proposed plan contains the following provisions:

14 (1) Black Hills is seeking authorization to begin amortizing an annual amount
15 equal to the total Kansas allocated acquisition premium, transaction costs and transition costs
16 divided by twenty-five. Twenty-five is the number of years Black Hills will use to amortize
17 the acquisition premium, transaction costs and transition costs. The amortization period would
18 begin on January 1, 2010 and end on December 31, 2035. The current estimate of the annual
19 amortized amount is * *

20 (2) Black Hills is also seeking authorization to include the annual amortized
21 amount approved in this case in rates beginning with the effective date of new rates approved
22 for Black Hills as part of the first general rate case decision issued by this Commission after
23 January 1, 2010. The amount amortized by Black Hills, pursuant to the authorization sought

1 under item no. 1 above, between January 1, 2010, and the effective date of new rates approved
2 as part of the first general rate case decision issued by this Commission after January 1, 2010,
3 would not be recovered in rates. For purposes of this plan it is presumed that until the annual
4 amortized amount is placed into rates, savings resulting from the approval of this transaction
5 would be used by Black Hills to cover the authorized annual amortized amount.

6 (3) The unamortized balances for acquisition premium, transaction costs and
7 transition costs would not be included in rate base for ratemaking purposes and would not earn
8 a return.

9 **Q. IS BLACK HILLS SEEKING TO INCLUDE ANY OF THE UNAMORTIZED**
10 **ACQUISITION PREMIUM, TRANSACTION COSTS OR TRANSITION COSTS IN**
11 **RATE BASE IN ORDER TO EARN A RETURN ON THOSE COSTS?**

12 A. As indicated above, Black Hills is not seeking to include any of the unamortized acquisition
13 premium, transaction costs or transition costs in rate base and is not seeking to earn a return
14 on the unamortized balance. Instead, Black Hills is proposing recovery of the acquisition
15 premium, transition costs and transaction costs through a straight line 25-year amortization
16 without carrying charges.

17 **Q. IS BLACK HILLS' PLAN TO RECOVER THE ACQUISITION PREMIUM,**
18 **TRANSITION COSTS AND TRANSACTION COSTS CONSISTENT WITH THIS**
19 **COMMISSION'S REGULATORY TREATMENT OF ACQUISITION PREMIUM,**
20 **TRANSACTION COSTS AND TRANSITION COSTS IN OTHER ACQUISITION**
21 **CASES DECIDED BY THIS COMMISSION?**

22 A. It is my understanding that this Commission believes that the appropriate regulatory treatment
23 of the acquisition premium, transaction costs and transition costs is to tie the potential recovery

1 of those costs to benefits that will be realized by customers as a result of the transaction and
2 that the amount of the acquisition premium, transaction costs and transition costs to be
3 included in rates shall be tied to the savings reasonably projected to be generated by the
4 transaction.¹ Black Hills' plan is consistent with this Commission's treatment of acquisition
5 premium, transaction costs and transition costs recovery in rates in that it ties recovery of those
6 costs to the savings reasonably projected to be generated by the transaction. Black Hills is
7 requesting a delay in initiating the amortization of the acquisition premium, transition costs
8 and transaction costs until 2010, when the expected savings will be in place. In addition,
9 under Black Hills' plan, the annual amortized amount will not be included in rates until the
10 effective date of new rates approved as part of the first general rate case decision issued by this
11 Commission after January 1, 2010. This means that the amount amortized by Black Hills
12 between January 1, 2010, and the effective date of new rates approved as part of the first
13 general rate case decision issued after January 1, 2010, will not be recovered in rates, but will
14 instead be presumed to be covered by the savings resulting from this transaction. This
15 approach is consistent with past Commission decisions relating to the regulatory treatment of
16 the recovery of the acquisition premium, transaction costs and transition costs.² In fact, Black
17 Hills' plan is conservative as compared to other plans approved by this Commission, in that
18 Black Hills is only seeking recovery of the acquisition premium, transition costs and
19 transaction costs through a straight line amortization period without carrying charges and

¹*In the Matter of the Application of Kansas City Power & Light Company, et al., Docket Nos. 172,745-U and 174,155-U, Order dated November 15, 1991, page 49.*

²*Id., pages 62-65.*

1 without inclusion of the unamortized amount in rate base.³

2 **VI. PRO-FORMA FINANCIAL INFORMATION**

3 **Q. CAN YOU IDENTIFY SCHEDULE 28 TO THE JOINT APPLICATION?**

4 A. Yes. Schedule 28 shows the post-transaction pro forma financial information of Black Hills.

5 **Q. CAN YOU IDENTIFY SCHEDULE 29 TO THE JOINT APPLICATION?**

6 A. Yes. Schedule 29 shows the post-transaction pro-forma financial balance sheet and income
7 statement of BH Kansas Gas.

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


9 A. Yes.

³*Id.*, pages 73-74.

VERIFICATION

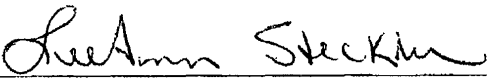
STATE OF SOUTH DAKOTA)
) ss:
COUNTY OF PENNINGTON)

I, Mark T. Thies, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing prepared supplemental 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.



Mark T. Thies

SUBSCRIBED AND SWORN to before me this 28th day of June, 2007.



Notary Public, State of South Dakota

My Commission Expires: 06-23-2011



MTT-4

CONFIDENTIAL financial presentation made
by Aquila's investment bankers to Aquila's
board of directors on November 1, 2006, during
Aquila's due diligence review of the asset purchase transaction

MTT-5

CONFIDENTIAL updated analysis showing the
projected savings in the cost of providing
service to the acquired Kansas customers

SCHEDULE 26

Allocation of Estimated Acquisition Premium, Transition Costs and Transaction Costs

CONFIDENTIAL

SCHEDULE 27

ACQUISITION PREMIUM, TRANSACTION COST AND TRANSITION COSTS RECOVERY PLAN

Black Hills' Proposed Plan contains the following provisions:

(1) Black Hills is seeking authorization to begin amortizing an annual amount equal to the total Kansas allocated acquisition premium, transaction costs and transition costs divided by twenty-five. Twenty-five is the number of years Black Hills will use to amortize the acquisition premium, transaction costs and transition costs. The amortization period would begin on January 1, 2010 and end on December 31, 2035. The current estimate of the annual amortized amount is

* *

(2) Black Hills is also seeking authorization to include the annual amortized amount approved in this case in rates beginning with the effective date of new rates approved for Black Hills as part of the first general rate case decision issued by this Commission after January 1, 2010. The amount amortized by Black Hills, pursuant to the authorization sought under item no. 1 above, between January 1, 2010, and the effective date of new rates approved as part of the first general rate case decision issued by this Commission after January 1, 2010, would not be recovered in rates. For purposes of this plan it is presumed that until the annual amortized amount is placed into rates, savings resulting from the approval of this transaction would be used by Black Hills to cover the authorized annual amortized amount.

(3) The unamortized balances for acquisition premium, transaction costs and transition costs would not be included in rate base for ratemaking purposes and would not earn a return.

SCHEDULE 28

Post-Transaction Pro Forma Financial Information of Black Hills Corporation

CONFIDENTIAL

SCHEDULE 29

Post-Transaction Pro Forma Financial Balance Sheet and Income Statement of BH Kansas Gas

CONFIDENTIAL