

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Amy J. Zamora. My business address is 2515 Warren Avenue, Suite 304, Cheyenne, Wyoming, 82002.

Q. WHAT IS YOUR OCCUPATION?

A. I am a Rate Analyst with the Office of Consumer Advocate (OCA).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OCCUPATIONAL EXPERIENCE.

A. I graduated from the University of Wyoming in 1995 with a Bachelor of Science Degree in Accounting. After graduating, I was employed as an Accountant with a service company that conducted financial transactions with credit card companies nationwide. My duties included financial analyses for those clients to ensure proper commission payments, internal auditing of costs, application of payments from clients for bills rendered, and payroll. In September 2000, I began working as a Rate Analyst with the Wyoming Public Service Commission (WPSC, or Commission) where I have analyzed numerous applications from utilities in the electric, natural gas, telecommunications and water industries. The applications included all types from wholesale commodity pass-on filings and general rate cases to routine requests and tariff filings. I then transferred to the OCA as a Rate Analyst in July 2003.

Q. HAVE YOU PROVIDED DIRECT TESTIMONY TO OR TESTIFIED BEFORE THE COMMISSION IN PREVIOUS PROCEEDINGS?

A. Yes, I have provided direct testimony in four previous proceedings regarding the revenue requirement, cost of service and rate design in general rate cases. I have testified in three of those proceedings.

Q. WHO DO YOU REPRESENT IN THIS PROCEEDING?

A. I am a member of the Office of Consumer Advocate (OCA). The OCA is empowered by W.S. §§ 37-2-401 through 404 to act as a party to any proceeding

before the Commission. The OCA is charged with representing the interests of Wyoming citizens and all classes of utility customers in matters involving public utilities. The OCA cannot advocate on behalf of any individual, organization or entity.

Q. ARE YOU INCLUDING ANY EXHIBITS AS PART OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am including the Stipulation and Agreement as Exhibit 1.

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

A. The purpose of my testimony is to provide evidence supporting the stipulation and agreement between the OCA, Black Hills Corporation (Black Hills), Cheyenne Light, Fuel and Power (Cheyenne Light), and Black Hills Power, Inc. (BHP) regarding the stock acquisition of CLF&P by Black Hills Corporation.

Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE TRANSACTION BETWEEN BLACK HILLS CORPORATION AND CHEYENNE LIGHT.

A. Black Hills Corporation is proposing to purchase all of the issued and outstanding stock of Cheyenne Light, which is a wholly owned subsidiary of Xcel Energy Inc. (Xcel). Xcel and Black Hills Corporation entered into a stock purchase agreement on January 13, 2004. The proposed transaction will be financed with cash and assumption of debt.

According to the application, the stock transfer should have no impact on the service that is currently being provided by Cheyenne Light. The application also states that Black Hills and Xcel are currently negotiating a Transition Services Agreement to help with the transfer of responsibilities.

Q. WHAT ARE THE STATUTES THAT GOVERN REORGANIZATIONS SUCH AS THIS PROPOSED STOCK TRANSFER?

A. W.S. 37-1-104 requires public utilities that are or will be providing service in the State of Wyoming to request approval from the Commission to proceed with any type of transaction that reorganizes or changes the control of a public utility. It reads:

a) No reorganization of a public utility shall take place without prior approval by the public service commission. The commission shall not approve any proposed reorganization if the commission finds, after public notice and opportunity for public hearing, that the reorganization will adversely affect the utility's ability to serve the public.

b) For purposes of this section, "reorganization" means any transaction which, regardless of the means by which it is accomplished, results in a change in the ownership of a majority of the voting capital stock of a public utility, or the ownership or control of any entity which owns or controls a majority of the voting capital stock of a public utility. "Reorganization" as used in this section shall not include a mortgage or pledge transaction entered into to secure a bona fide borrowing by the party granting the mortgage or making the pledge.

Q. WHAT ARE THE COMMISSION'S RULES AND REGULATIONS THAT RELATE TO CHANGES IN OWNERSHIP?

A. Section 209 of the Commission's Procedural Rules and Special Regulations requires companies to request authority from the Commission to sell or transfer a public utility or a controlling interest. It reads:

Any public utility proposing to sell, lease, transfer or otherwise dispose of the public utility or a controlling interest in a public utility, as evidenced by a controlling stock interest, shall, prior to such

sale, lease, transfer or other disposal, file an application for authority to do so in the form of Section 901, (e) (Form No. 5) of Chapter IX including the following information:

- a) The address of the applicant;
- b) List and describe the public utility or the controlling interest in the public utility proposed to be abandoned, sold, leased, transferred or otherwise disposed;
- c) The financial condition of the applicant;
- d) List the name and financial condition of the purchaser, lessee or assigned;
- e) State the terms and conditions of the proposed abandonment, sale, lease or assignment and provide copies of any agreement which has been or will be executed concerning the same;
- f) State the effect of the proposed transaction upon the service of the applicant;
- g) State the method by which the proposed transaction is to be financed;
- h) State the effect the proposed transaction will have on any other utility, and if so, in what respect.

Q. HOW DOES THE STATUTE AND RULE NOTED ABOVE RELATE TO THE STOCK ACQUISITION DESCRIBED IN THIS APPLICATION?

A. The statute cited above requires that Cheyenne Light file this application with the Commission for approval of the transfer of stock from Xcel to Black Hills. The Commission may approve the acquisition if it finds that the transaction will not adversely affect the utility's ability to serve customers of Cheyenne Light. However, it doesn't provide guidance as to what areas to review in order to verify the effect that the transaction may have.

The Commission's rule reiterates the statute in that an application for authority to sell or transfer a controlling interest in a public utility must be filed with the Commission. However, the rule also requires certain information to be filed with the application. For example, financial information must be included for both the utility being sold and the company that is buying it as well as what effect the transaction will have on the utility being sold and any other utility.

Q. WHAT TYPES OF STANDARDS WERE APPLIED WHEN THE OCA REVIEWED THIS APPLICATION?

- A. According to the statute related to reorganizations, this transaction cannot be approved if it will adversely affect the utility's ability to serve the public. Therefore, the utility must remain able to provide safe and reliable service at reasonable rates after ownership has been transferred.

The transfer of ownership should be as seamless as possible. Customers should not be able to notice any significant disturbances in any aspect of their service. For example, a customer's access to customer service should not be hampered due to a change in call centers; the quality of the service that will be provided should not be lower than the service that is currently being provided.

In addition, a company should possess sufficient technical, financial and managerial resources to ensure that it will be able to operate the utility company it is acquiring. Insufficient resources in these areas on the part of the purchasing company could adversely affect the public utility's ability to serve.

Q. WHAT IS THE RESULT OF THE OCA'S REVIEW OF THE APPLICATION?

- A. Black Hills Power, a subsidiary of Black Hills, is a public utility that provides electricity to over 61,000 customers over an area that includes Northeastern Wyoming, Western South Dakota and Southeastern Montana. Through Black Hills Power's success, Black Hills has illustrated that it possesses sufficient

managerial and technical resources to oversee the electrical operations of Cheyenne Light. However, Black Hills intends to maintain Cheyenne Light, Fuel and Power as a complete and separate subsidiary. Cheyenne Light will continue to operate autonomously, but with corporate support from Black Hills. In addition, Black Hills has indicated in pre-filed testimony that all existing employees will have the opportunity to remain employees of Cheyenne Light as the company will continue offering the same services under the Cheyenne Light name. The experience of the personnel of Cheyenne Light will further strengthen Black Hill's level of managerial and technical resources as a parent company, which will also help to ensure the transition is seamless and transparent to customers.

Black Hills included an SEC Form 10-K for 2003 with the application to demonstrate its financial condition. The Consolidated Statements of Income and Balance Sheets illustrate that Black Hills earned just under \$57 million as Income from Continuing Operations, with total assets of \$2 billion. Black Hills Power, its public utility subsidiary, earned approximately \$24 million, with almost \$464 million in total assets. In addition, Black Hills' bond ratings are BBB- (Standard and Poor's) and Baa3 (Moody's). Both ratings are comparable to the industry average. Other financial indicators are also at adequate levels. For example, Black Hills' current ratio is 1.67. This ratio is a measure of liquidity and shows how well the company's current assets cover its current liabilities. From our review of the financial information, it is evident that Black Hills Corporation is consistently earning revenues, sustaining Net Income, expanding its plant balances and paying dividends. Therefore, the OCA believes that the financial resource standard has also been sufficiently met.

Q. YOU MENTION ABOVE THAT BLACK HILLS HAS THE RESOURCES TO PROVIDE *ELECTRIC* SERVICE TO CUSTOMERS, BUT DOES BLACK HILLS CORPORATION HAVE ANY EXPERIENCE

OPERATING OR OWNING A NATURAL GAS LOCAL DISTRIBUTION COMPANY (LDC)?

- A. No it does not. Black Hills is currently involved in the production, marketing, and transportation of natural gas through Black Hills Energy, Inc. (BPE), its non-utility subsidiary. It does not provide gas distribution service on a retail basis and, as such, is not an experienced LDC.

Q. WHAT CONCERNS DOES THE OCA HAVE WITH THE FACT THAT BLACK HILLS DOES NOT HAVE EXPERIENCE WITH OR AS AN LDC?

- A. Currently, personnel at Cheyenne Light perform the day-to-day operations, while its parent company, Xcel Energy, Inc., provides for the corporate level functions such as procuring the gas that is used by Cheyenne Light customers and completing the annual gas pass-on applications. We are not concerned with the day-to-day aspects of the natural gas distribution operations because Black Hills intends to maintain the same personnel and services in its retail gas operations at Cheyenne Light, but we do have concerns regarding how the corporate level functions would continue to be accomplished since personnel at Cheyenne Light are not currently involved in the final product that are the result of these processes.

Q. WHAT COURSE OF ACTION HAS BLACK HILLS PROPOSED IN THE APPLICATION TO HELP ALLEVIATE THE OCA'S CONCERNS?

- A. Black Hills will contract with Xcel to help with the transition of functions that are done at the corporate level. These functions will include operational support for Cheyenne Light's gas business, corporate support for areas such as regulatory activities, outage reporting, and gas purchases, and billing, information services support, and support for other services. The framework for the Transition Services Agreement (the Agreement) has been outlined in Schedule 9.10 of the Stock Purchase Agreement.

Xcel will perform the tasks mentioned in the agreement over a period of months while personnel from Black Hills and Cheyenne Light gain the appropriate experience over the same time period. We are confident that over this time period, Black Hills and Cheyenne Light personnel will be able to operate all aspects of Cheyenne Light's gas business in a competent manner. The OCA believes that the proposed Agreement will help ensure that the transition is seamless.

The Transition Services Agreement will be finalized after all regulatory approvals have been granted. This is expected to occur sometime in December 2004.

Q. WHAT OTHER REGULATORY AGENCIES WILL HAVE JURISDICTION OVER THIS TRANSACTION?

- A. Black Hills must obtain approval from the Wyoming Public Service Commission, the Federal Energy Regulatory Commission (FERC), the Securities and Exchange Commission (SEC), and the Federal Communications Commission (FCC).

Orders approving the actual sale and acquisition of Cheyenne Light are needed from the WPSC and the FERC. The FCC must grant the transfer of radio communications licenses from Xcel to Black Hills that are being used by Cheyenne Light. All appropriate applications have been filed with these three commissions.

In the application to the WPSC, Black Hills had mentioned that it would prefer to file with the SEC for an exemption from registering as a holding company under the Public Utility Holding Company Act (PUHCA) because of a variety of business, financial and regulatory reasons. The OCA has learned through discussions with the company and data responses that Black Hills has filed a Form U-1 application requesting to register with the SEC as a holding company under PUHCA. However, Black Hills will also need to file a separate application

with the SEC for approval of the acquisition of Cheyenne Light. That application will be filed with the SEC if the WPSC approves the transaction at the state level.

Q. WHY DID BLACK HILLS DECIDE TO REGISTER AS A HOLDING COMPANY INSTEAD OF ASKING FOR AN EXEMPTION FROM THE SEC?

A. Registering as a holding company will allow Black Hills to continue to develop competitive generation projects, expand its power marketing operations, and pursue additional growth opportunities in the utility business while preserving the benefits of a holding company structure, as stated in its Form U-1 application that was filed with the SEC on July 19, 2004. Not registering as a holding company could impede Black Hills' business strategy.

Q. HOW WILL REGISTERING AS A HOLDING COMPANY AFFECT BLACK HILLS?

A. Black Hills will operate in a similar manner as a holding company under PUHCA as it does now. Becoming a holding company will add a layer of financial reporting that is required by the SEC. However, because it will become a holding company, Black Hills must file its allocation methodologies with the SEC for approval (included with the U-1 application). The allocation methodologies are audited by the SEC to ensure that costs are fairly and equitably allocated between parent companies and their subsidiaries. In essence, this requirement will aid the WPSC with a 'frontline' review of allocations through SEC audits since any allocations will have already been disallowed by the SEC if found to be unfair. Other operations of the company will remain the same.

Q. DOES THE OCA BELIEVE THAT CHEYENNE LIGHT WOULD BE A 'GOOD FIT' WITH BLACK HILLS CORPORATION AND ITS BUSINESS STRATEGIES?

A. Yes. Black Hills' predecessor companies began providing utility service in the late 1800's. Even today, it does not provide power to any major population

centers; it is a rural provider. It also provides wholesale power and natural gas, which account for more than half of its revenues. However, Black Hills representatives have indicated that the company would like to invest in utilities that provide retail service. Cheyenne Light not only fits with its ‘small company’ origins, but it too is a small company with a long history. The integration of Cheyenne Light into Black Hills Corporation will also provide an enhancement to its Wall Street perception because it would diversify its revenue base.

Q. WHY DID THE OCA ENTER INTO A STIPULATION WITH CHEYENNE LIGHT AND BLACK HILLS?

A. The OCA’s review of the application and the accompanying documentation indicate that the transfer will be seamless and that Cheyenne Light’s ability to provide safe and reliable service will not be adversely affected. In addition, we believe that Black Hills has the managerial, technical and financial resources to own and operate Cheyenne Light as a public utility.

However, we had some concerns with Black Hills’ ability to effectively own and manage Cheyenne Light’s gas distribution operations since Black Hills does not have experience as an LDC on a retail basis and, at the present time, Cheyenne Light personnel are minimally involved in corporate level functions. We have had several discussions with the companies to address our concerns. They are confident that the experience they have with their wholesale natural gas operations is a good platform to venture into retail operations. They have also conveyed to us their strategy to transition the duties that were performed by Xcel staff to Black Hills and Cheyenne Light staff through the Transition Services Agreement. In fact, some of the areas (testing of billing systems) that will be included in the final agreement have already been partially transitioned to Black Hills.

The OCA believes that Black Hills can successfully integrate the gas distribution operations into the company because of its strong management and technical

resources and because of the Transition Services Agreement. The Stipulation and Agreement between the OCA, Black Hills and Cheyenne Light will enable the Commission and the OCA to monitor the transition from Xcel to Black Hills, since the Transition Services Agreement is not completely finalized. It will also provide assurances for the continued gas and electric operations of Cheyenne Light and for the Wyoming customers of Black Hills Power.

Q. PLEASE PROVIDE A SUMMARY OF THE STIPULATION AND AGREEMENT.

A. The items that were agreed to by the parties to the Stipulation can be classified into three areas: affirmations, monitoring tools, and a short moratorium on rates. The OCA believes that the affirmations were necessary to reiterate for the record the various jurisdictional issues, SEC rules, state statutes, Commission rules and the current status of the companies and their rates.

1. Paragraph 9 – The parties are affirming what the separate and distinct jurisdictions are for the SEC and the Commission with regards to affiliate transactions and the allocation of common costs. This is an important point for future rate cases where SEC approved allocations may be scrutinized by the Commission for inclusion in rates.
2. Paragraph 11 – Black Hills affirms that it will follow SEC requirements in assigning costs to those entities that are benefiting from the costs, either as a direct assignment or as an allocation.
3. Paragraphs 12 and 13 – Black Hills acknowledges that state statutes provide the OCA staff with access to books and records of any affiliated company that has entered into transactions with Cheyenne Light and Black Hills Power for any existing docket.
4. Paragraph 16 – Black Hills reiterates that it is not planning to change Cheyenne Light’s current employee levels and available services as a

result of this acquisition. However, the parties agreed that Black Hills could make changes in these areas if, after a review of best practices between its subsidiaries, changes are necessary for the normal course of business.

5. Paragraph 18 – Cheyenne Light and Black Hills agree to continue to participate in Energy Share of Wyoming.
6. Paragraph 19 – Black Hills affirms that it follow state statutes in that it will not recover from ratepayers any costs of this acquisition through expenses or rate base.
7. Paragraph 20 – Black Hills and Cheyenne Light confirm for the record that this specific application will not increase rates for either Cheyenne Light or Black Hills Power.

The stipulation provides various tools to enable the Commission and OCA staff to monitor the transition of the operations from Xcel to Black Hills and Cheyenne Light. These tools are particularly valuable since the final Transition Services Agreement is not yet available.

1. Paragraph 10 – Over the last few years, lawmakers have been discussing reforming or repealing the Public Utilities Holding Company Act due to its perceived antiquity and the manageability of holding companies. Therefore, Black Hills has agreed to meet with the Commission and OCA staff to discuss any changes to its allocation methodologies that may occur if the act is reformed or repealed.
2. Paragraphs 14 and 15 – Black Hills and Cheyenne will file a narrative and illustrative update on its transition plan three months and 15 months after the closing of the transaction. The report will include among other things the formal Transition Services Agreement with Xcel, the current status of

the services being transitioned, and the expected completion dates of the transitioned services.

3. Paragraph 17 – Since Cheyenne Light will no longer be required to file an IRP after December 2005, Black Hills has offered to provide an annual electric demand and energy forecast and the existing resources that will be available to meet those requirements.

In Paragraph 21 of the stipulation, the companies have also agreed not to file a rate increase that would become effective prior to January 1, 2006, for Cheyenne Light. This moratorium will allow time for Black Hills and Cheyenne Light personnel to gain general operational experience in performing new duties, which will be needed to help support any increase that it deems necessary.

Q. WHAT IS THE OCA’S RECOMMENDATION TO THE COMMISSION FOR THIS APPLICATION?

- A. The OCA believes that the transfer of stock of Cheyenne Light, Fuel and Power from Xcel Energy, Inc. to Black Hills Corporation is in the public interest. We believe that the transaction will be seamless and transparent to customers and will have no adverse affect on the service that is currently being provided by Cheyenne Light. We recommend that the Commission approve the Stipulation and Agreement that has been signed by the OCA and the companies.

Q. DOES THIS COMPLETE YOUR PRE-FILED TESTIMONY?

- A. Yes, it does.

Exhibit 1

Stipulation and Agreement