Questions for Supplemental Direct Testimony

Program Cost Details

1. a) Please provide Black Hills/Colorado Gas Utility Company, LP's (Black Hills or Company) forecast of all proposed cost of service gas program (COSG Program) costs, by year, for a 20-year term, with resulting gas prices in both $[1] and in $/MMBtu. Include full details and supporting information for all premiums and added costs that will be incurred as a result of the COSG Program. For any costs that are not yet fully determined, provide the best available estimation.[2]

   b) Please provide a +/- percentage confidence interval for all estimated costs.

   c) Is the goal of the COSG Program to lock in historically low reserve and gas prices, or is the goal to lock in the average NPV long term forecast price?

2. a) Please provide Black Hills's best estimate of percent of production by year that will be supplied under the COSG Program as it ramps up to 50 percent and continues for the life of the field(s). *See* Loomis p.12.

   b) Provide a proposal for the amount of hedging using current instruments (*e.g.,* short-term fixed price contracts, seasonal storage, and short-term financial hedges) that should be continued for the electric and gas departments if the COSG Program is approved.

   c) Provide a full discussion of whether Black Hills's proposal represents a diversified portfolio approach to hedging (*e.g.,* different types of hedges are implemented and hedges are implemented at different periods of time) including Black Hills's proposal to implement the COSG Program at the full 50 percent in a short period of time.

3. Please provide the estimated annual costs, in $ and $/MMBtu of COSG gas, for the Hydrocarbon Monitor, the Accounting Monitor, and the administration of the program.

Market Gas Price Comparison

4. a) Please provide a side-by-side comparison of the estimated gas costs for:
   - The proposed COSG Program (with estimated costs as required in question 1, above),
   - A continuation of the hedging program that exists now without the COSG Program;

[1] All dollar costs should indicate the costs to the Black Hills electric department and Black Hills gas department.
[2] Carr Attachment AC-2 provides formulas and an example of the calculation of the costs, but it is posed as a hypothetical example and does not provide a reliable cost estimate. At the very least, Carr attachment AC-2 should be revised to include a 20-year term and expected costs.

- Black Hills's proposed combination of the COSG Program and continuation of the current hedging program as addressed in question 2, above; and
- A 100 percent spot market purchase case.

Please provide this information by year, for a 20-year term, in $ and $/MMBtu, along with percent bill impact on gas and electric customers compared with the 100 percent spot market purchase case.

5. Please provide a publicly available gas forecast or approximation.[3] *See* Loomis Confidential table 1.

Commission Approval Process

6. a) Please provide a full discussion stating why it is reasonable for the Commission to determine the prudence of the COSG Program structure and operations without knowing the details of all proposed reserve acquisition and development costs, which will be proposed separately for expedited approval.

   b) Please provide a full discussion of why it is reasonable for the Commission to approve the reserve acquisitions and 5-year drilling plans on a 60-day expedited schedule, and what alternatives would be available if there is insufficient information to make a decision within the 60-day period.

   c) Please provide a full discussion of the Commission's authority over reserve acquisition and drilling plans of an unregulated gas producer. Please cite all rules and/or statutory authorities.

7. a) If necessary, how can any state potentially effect changes to the agreement concerning issues unique to that individual state, or issues common to all six states where the COSG Program is proposed? *See* Vancas p.24

   b) Please explain all concerns and issues raised in other states where the COSG Plan is under consideration, and the Company's position. Please also propose a procedure where Black Hills will inform the Commission and parties in these Proceedings about any further concerns, issues, responses, and proposals raised in other states.

8. a) Please provide a full discussion of whether the proposal for the Hydrocarbon Monitor and Accounting Monitor to provide "independent" reports and assessments to Black Hills Utility Holdings (BHUH) and the state commissions presents a conflict of interest because the monitors are hired and paid by BHUH. *See* Carr p.6-7.

[3] For example, in past Electric Resource Planning cases Public Service has provided a blend of multiple confidential sources, with the resulting blend being public.

b) Does Black Hills believe approval of reserve acquisitions and drilling plans is within the Commission's and the Parties' expertise? If not, does Black Hills expect the Commission and the Parties to contract for such expertise, or are the Hydrocarbon Monitor and Accounting Monitor intended to fulfill such needs?

Risk Sharing

9. Please provide a full discussion and basis for Black Hills's proposal to use an unregulated affiliate to perform the COSG function. Why is it in the public interest to use an affiliate without bidding to other gas producers to make sure customers get the least-cost option? Why is it fair to exercise monopoly power to benefit one affiliate producer over other gas producers? How does this promote efficiency in the market?

10. Please provide a full discussion about whether the contract between Black Hills as a public utility and its unregulated affiliate grants benefits, or imposes obligations, upon the unregulated subsidiary in violation of the doctrine of regulated monopoly or § 40-3-114, C.R.S..

11. Please provide a detailed track record of BHEP:

    a) Provide documentation demonstrating the profitability and average drilling, completion and overall production costs, by year, for the last ten years.

    b) Provide a list of production assets and value for over the last ten years.

    c) Provide a summary of staffing positions and numbers of staff for over the last ten years.

12. a) Please provide a full discussion of why the methodology used to determine the capital structure (based on a proxy group of Exploration & Production companies) is different from the proposed Return on Equity (ROE) methodology (based on average ROE of regulated utilities). *See* McKenzie p.15. Why does this approach provide the proper return on investment for ratepayers? Please cite any precedent for such methodology.

    b) How are the risks faced by E&P companies in the proxy group comparable to the COSG Program, given the certainty of cost recovery through the COSG Agreement? Please explain the risks of the COSG Program that justify a capital structure higher in equity than the operating utility. *See* McKenzie p. 36.