

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEBRASKA**

IN THE MATTER OF THE JOINT APPLICATION)
OF SOURCEGAS DISTRIBUTION LLC,)
SOURCEGAS LLC, SOURCEGAS HOLDINGS LLC,)
AND BLACK HILLS UTILITY HOLDINGS, INC.)
FOR ALL NECESSARY AUTHORIZATIONS AND)
APPROVALS FOR BLACK HILLS UTILITY)
HOLDINGS, INC. TO ACQUIRE SOURCEGAS)
HOLDINGS LLC)

DOCKET NO. NG-0084

NON CONFIDENTIAL

DIRECT TESTIMONY AND EXHIBITS OF

DONNA H. MULLINAX

ON BEHALF OF THE NEBRASKA PUBLIC ADVOCATE

November 6, 2015

Table of Contents

- I. INTRODUCTION 5**
 - A. Witness Identification and Testimony Overview 5**
 - B. Background 9**

- II. Summary of Proposed Transaction..... 10**
 - A. Overview of Joint Applicants10**
 - B. Reason for the Transaction.....15**
 - C. Overview of the Sales Process16**
 - D. Black Hills’ Bid19**
 - E. Overview of the Joint Applicants’ Proposed Transaction22**
 - F. Overview of Proposed Commitments23**

- III. Transaction Evaluation Standards..... 26**

- IV. Impact Area 1 – Synergies and Cost Savings 27**
 - A. Overview27**
 - B. Synergies and Cost Savings for the Benefit of Ratepayers.....27**
 - C. Impact on Nebraska Employees.....31**
 - D. Summary and Recommendations.....34**

- V. Impact Area 2 – Safety and Reliability..... 35**
 - A. Overview35**
 - B. Safety and Reliability Records of BHUH and SourceGas.....36**
 - C. Integration of Safety and Reliability Improvement Programs and Goals.....37**
 - D. Customer Perception of Companies’ Operations.....40**
 - E. SourceGas’s Infrastructure Replacement Program42**
 - F. Summary and Recommendations43**

- VI. Impact Area 3 – Financial Health 44**
 - A. Overview44**
 - B. Gain on Sale45**
 - C. Impact on Rates47**
 - 1. Acquisition Premium..... 47
 - 2. Transaction Costs and Transition Costs..... 50
 - 3. Shareholder Litigation 53
 - 4. Accumulated Deferred Income Tax (ADIT) 53
 - 5. Cost of Capital 56
 - D. Rate Case Filings58**
 - E. Capital Market Implications.....60**
 - 1. Stock Price..... 60
 - 2. Credit Ratings 63
 - F. Financial Well Being64**
 - G. Summary and Recommendations65**

- VII. Impact Area 4 – Operations..... 67**
 - A. Overview67**
 - B. Organizational Structure, Roles, and Responsibilities68**
 - C. Change of Parent Corporate Headquarters.....68**
 - D. Major Operational Changes70**

E.	Allocation of Overhead and Administrative Costs.....	72
F.	Ring Fencing	74
G.	Summary and Recommendations	75
VIII.	Impact Area 5 – Regulation.....	77
A.	Overview	77
B.	Analysis.....	77
C.	Summary and Recommendations	79
IX.	Impact Area 6 – Competition.....	80
A.	Overview	80
B.	Analysis.....	80
C.	Summary and Recommendations	82
X.	Impact Area 7 – Conservation and Environmental Protection.....	83
A.	Overview	83
B.	Analysis.....	83
C.	Summary and Recommendations	86
XI.	Conclusions AND RECOMMENDATIONS.....	86
XII.	ADDITIONAL INFORMATION.....	92
Attachment A.....		94
Professional Experience and Education of Donna H. Mullinax		94

EXHIBITS

- DHM-1 - Press Release
- DHM-2 - Response to Information Request PA-125
- DHM-3 - Response to Information Request PA-1
- DHM-4 - Response to Information Request PA-2
- DHM-5 - Response to Information Request PA-110
- DHM-6 HC - Response to Information Request PA-5f pg 12 - HIGHLY CONFIDENTIAL
- DHM-7 - Response to Information Request PA-111
- DHM-8 HC - Response to Information Request PA-3a - HIGHLY CONFIDENTIAL
- DHM-9 - Response to Information Request PA-112
- DHM-10 HC - Response to Information Request PA-5g - HIGHLY CONFIDENTIAL
- DHM-11 HC - Response to Information Request PA-115 - HIGHLY CONFIDENTIAL
- DHM-12 HC - Response to Information Request PA-113a - HIGHLY CONFIDENTIAL
- DHM-13 HC - Response to Information Request PA-113b - HIGHLY CONFIDENTIAL
- DHM-14 HC - Response to Information Request PA-27a - HIGHLY CONFIDENTIAL
- DHM-15 - Response to Information Request PA-28
- DHM-16 - Response to Information Request PA-29a - WP NE PA_1-29 response attachment.xlsx
- DHM-17 - Response to Information Request PA-34
- DHM-18 HC - Response to Information Request PA-33 - HIGHLY CONFIDENTIAL
- DHM-19 - Response to Information Request Joint Application Exhibit 5 pg 47-48
- DHM-20 - Response to Information Request PA-36
- DHM-21 - Response to Information Request PA-128
- DHM-22 - Response to Information Request PA-32
- DHM-23 - Response to Information Request PA-129
- DHM-24 - Response to Information Request PA-39
- DHM-25 - Response to Information Request PA-40
- DHM-26 - Response to Information Request PA-43
- DHM-27 - Response to Information Request PA-122
- DHM-28 - Response to Information Request PA-49
- DHM-29 - Response to Information Request PA-51
- DHM-30 - Response to Information Request PA-42
- DHM-31 - Response to Information Request PA-50
- DHM-32 - Response to Information Request PA-55
- DHM-33 HC - Response to Information Request PA-5b pg 1 - HIGHLY CONFIDENTIAL
- DHM-34 - Response to Information Request PA-19
- DHM-35 - Response to Information Request PA-118
- DHM-36 C - Response to Information Request PA-116 - CONFIDENTIAL
- DHM-37 - Response to Information Request PA-21
- DHM-38 - Response to Information Request PA-26
- DHM-39 HC - Response to Information Request PA-13 - HIGHLY CONFIDENTIAL
- DHM-40 - Response to Information Request PA-12
- DHM-41 - Response to Information Request PA-7

- DHM-42 - Response to Information Request PA-8 NE PA_1-08 Rating Agency summary
- DHM-43 - Response to Information Request PA-136
- DHM-44 - Response to Information Request PA-137 attachment
- DHM-45 - Response to Information Request PA-56
- DHM-46 - Response to Information Request PA-65
- DHM-47 - Response to Information Request PA-45
- DHM-48 - Response to Information Request PA-46
- DHM-49 - Response to Information Request PA-81 attachments
- DHM-50 - Response to Information Request PA-84
- DHM-51 - Response to Information Request PA-83
- DHM-52 - Response to Information Request PA-87
- DHM-53 - Response to Information Request PA-89
- DHM-54 - Response to Information Request PA-91
- DHM-55 - Response to Information Request PA-93
- DHM-56 - Response to Information Request PA-94
- DHM-57 - Response to Information Request PA-92
- DHM-58 - Response to Information Request ACE-2
- DHM-59 - Response to Information Request ACE-5
- DHM-60 - Response to Information Request ACE-4
- DHM-61 - Response to Information Request ACE-8
- DHM-62 - Response to Information Request PA-130
- DHM-63 HC - Response to Information Request PA-139 - HIGHLY CONFIDENTIAL

1 **I. INTRODUCTION**

2 **A. *Witness Identification and Testimony Overview***

3 **Q. Please state your name, position, and business address.**

4 A. My name is Donna H. Mullinax. I am employed as Vice President and Chief
5 Financial Officer by Blue Ridge Consulting Services, Inc. My business address
6 is 114 Knightsridge Road, Travelers Rest, South Carolina 29690.

7 **Q. Please describe your educational background.**

8 A. I graduated with honors from Clemson University with a Bachelor of Science
9 in Administrative Management and a Master of Science in Management. I am
10 a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), a
11 Certified Financial Planner (CFP), and a Chartered Global Management
12 Account (CGMA) designation holder. I am a member of the South Carolina
13 Association of Certified Public Accountants, the American Institute of
14 Certified Public Accountants, and the Institute of Internal Auditors.

15 **Q. Please describe your professional experience.**

16 A. I have over 36 years of professional experience. I have held the position of
17 Vice President and Chief Financial Officer (CFO) for the last 20 years and
18 have served on various Boards of Directors. As Vice President/CFO, I have
19 been responsible for all aspects of finance and administration, including
20 accounting, cash management, tax planning and preparation, fixed assets,

1 human resources, and benefits for my current employer and my previous
2 employer, Hawks, Giffels, & Pullin (HGP), Inc.

3 In addition to my corporate responsibilities, I have been a utility
4 industry consultant for the last 22 years. My consulting assignments include
5 management, financial, and compliance audits, due diligence reviews,
6 prudence reviews, and economic viability and financial studies. Other
7 projects include numerous rate cases for natural gas and electric utilities and
8 litigation support for various construction claims. I have worked with public
9 service commissions, attorney generals, and public advocates in Colorado,
10 Connecticut, Delaware, District of Columbia, Hawaii, Illinois, Maryland,
11 Massachusetts, Michigan, Missouri, Nebraska, New York, North Dakota, Ohio,
12 Oregon, and Utah.

13 From 1991 to 1993, I worked with Cherry, Bekaert & Holland CPAs as
14 a senior accountant and accounting supervisor. My responsibilities included
15 financial and compliance audits, financial reporting, and tax return
16 preparation. From 1988 to 1991, I was a sales representative for Smith, Kline
17 and French Pharmaceutical Company.

18 I worked with Milliken and Company, a large privately held textile and
19 chemical company, from 1979 through 1988. As head of the Quality
20 Assurance Department, I was actively involved in numerous operations'
21 audits supporting Milliken's Quality Program. As the Technical Cause Analyst,
22 I analyzed complex quality and production problems to develop corrective
23 actions through advanced statistical and problem-solving techniques. I

1 conducted training seminars for production associates and management on
2 statistical quality control techniques. I held various production management
3 positions with the responsibility of controlling cost, schedule, production,
4 and quality within areas under my control.

5 **Q. Have you included a more detailed description of your qualifications?**

6 A. Yes. A description of my qualifications is included as Attachment DHM-1.

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of the Nebraska Public Advocate.

9 **Q. Have you previously testified before the Nebraska Corporation**
10 **Commission?**

11 A. Yes. I testified before this Commission in Docket Nos. NG-0078 and NG-0079.

12 **Q. What other work have you performed that has come before this**
13 **Commission?**

14 A. I was the project manager and lead auditor for the auditor reports filed with
15 the Commission for the following dockets:

- 16 • NG-0072 – SourceGas ISR
- 17 • NG-0072.01 – SourceGas ISR
- 18 • NG-0074 – Black Hills ISR
- 19 • NG-0078.01 – SourceGas SSIR
- 20 • NG-0078.02 – SourceGas SSIR

21 **Q. In what other jurisdictions have you previously appeared as a witness**
22 **or filed testimony?**

1 A. I have testified in Colorado, Delaware, Maryland, Michigan, and Nebraska. I
2 have also supported other experts' testimonies in numerous other
3 jurisdictions and have served as an advisor to the Commission and Staff for
4 the District of Columbia Public Service Commission for a number of gas and
5 electric proceedings.

6 **Q. What is the purpose of your testimony in this proceeding?**

7 A. My testimony includes my evaluation of the Joint Applicants' application and
8 information provided during discovery regarding the change in ownership of
9 SourceGas Holdings to determine whether the transaction is consistent with
10 the public interest and will not adversely affect the utility's ability to serve its
11 ratepayers. My testimony includes recommendations of Conditions of
12 Approval should the Commission decide to approve the transfer of
13 ownership.

14 **Q. Please summarize your conclusions.**

15 A. The Transaction would not be in the best interest of the Nebraska ratepayers.
16 As I discussed throughout my testimony, there are costs associated with the
17 Transaction and other conditions that could adversely impact Nebraska
18 ratepayers if not addressed by this Commission. Should the Commission
19 approve the change in ownership control, I recommend several conditions be
20 placed on that approval. The complete list is included at the end of my
21 testimony.

1 **Q. Are you presenting any exhibits in connection with your direct**
2 **testimony in this proceeding?**

3 A. Yes. Exhibits DHM-1 through DHM-62 support my analysis and the resulting
4 testimony.

5 ***B. Background***

6 **Q. Please provide the background on the Companies' joint request for**
7 **authority for Black Hills Holdings, Inc. to acquire SourceGas Holdings,**
8 **LLC.**

9 A. On August 10, 2015, SourceGas Distribution LLC ("SourceGas Distribution"),
10 SourceGas LLC ("SourceGas"), SourceGas Holdings LLC ("SourceGas
11 Holdings"), and Black Hills Utility Holdings, Inc. ("Black Hills" or BHUH)
12 (collectively known as the "Companies" or "Joint Applicants") filed a joint
13 Application seeking the authorizations and approvals for Black Hills Utility
14 Holdings, Inc. to acquire SourceGas Holdings LLC. (referred to as the
15 "Transaction"). The Joint Application requests approval of a transaction
16 which will result in a change of control of SourceGas Distribution's Nebraska
17 jurisdictional assets and SourceGas Distribution (which will be renamed as
18 "Black Hills Gas Distribution, LLC d/b/a Black Hills Energy") becoming a
19 subsidiary of Black Hills Utility Holdings, Inc.

20 The Companies' Application is made pursuant to Neb. Rev Stat §§ 66-
21 1816, 66-1821, and 66-1828.

22 **Q. Please state what is included within these statutes.**

1 Nebraska Revised Statutes Chapter 66 provides the following applicable
2 information:

3 Section 66-1816:

4 No jurisdictional utility shall purchase or acquire, take, or hold any
5 part of the voting stock, bonds, or other forms of indebtedness of
6 any competing jurisdictional utility, either as owner or pledgee,
7 unless authorized by the commission.

8 Section 66-1821:

9 No franchise or certificate of convenience granted to a
10 jurisdictional utility shall be assigned, transferred, or leased unless
11 the assignment, transfer, or lease has been approved by the
12 commission as being consistent with the public interest.

13 Section 66-1828:

14 (1) No reorganization or change of control of a jurisdictional utility
15 shall take place without prior approval by the commission. The
16 commission shall not approve any proposed reorganization or
17 change of control if the commission finds, after public notice and
18 public hearing, that the reorganization or change of control will
19 adversely affect the utility's ability to serve its ratepayers.

20 (2) For purposes of this section, reorganization or change of
21 control means any transaction which, regardless of the means by
22 which it is accomplished, results in a change in the ownership of a
23 majority of the voting capital stock of a jurisdictional utility and
24 does not include a mortgage or pledge transaction entered into to
25 secure a bona fide borrowing by the party granting the mortgage or
26 making the pledge.

27 **II. SUMMARY OF PROPOSED TRANSACTION**

28 ***A. Overview of Joint Applicants***

29 **Q. Please describe the parties involved in the transaction.**

30 A. BHUH is acquiring SourceGas Holdings in the Transaction. There are a number
31 of other affiliated companies of the Joint Applicants that I'll briefly identify.

1 SourceGas Distribution is a limited liability company organized under
2 the laws of the State of Delaware. SourceGas Distribution owns and operates
3 jurisdictional natural gas distribution assets in Nebraska and provides retail
4 gas distribution services to approximately 88,000 customers in about 180
5 Nebraska municipalities, located primarily in the western two-thirds of the
6 state. SourceGas LLC, a Delaware limited liability company, is the 100%
7 owner of SourceGas Distribution. SourceGas LLC is a wholly owned
8 subsidiary of SourceGas Holdings.

9 SourceGas Holdings is a limited liability company organized under the
10 laws of the State of Delaware. SourceGas Holdings is owned 50% by Aircraft
11 Services Corporation, a subsidiary of General Electric Company, and its
12 affiliate GE Energy Financial Services and 50% by Alinda Investments LLC
13 and Alinda Gas I Inc. (“SourceGas Owners”).

14 Black Hills Corporation is the parent of Black Hills Utility Holdings,
15 Inc. Black Hills Corporation is a South Dakota Company listed on the New
16 York Stock Exchange (symbol BKH). Black Hills Corporation is a diversified
17 energy company based in Rapid City, South Dakota, with corporate offices in
18 Papillion, Nebraska, and Denver, Colorado. Black Hills Corporation was
19 formed as a holding company under the Public Utility Holding Company Act
20 (PUHCA). Black Hills provides regulated natural gas and electric utility service to
21 approximately 785,000 customers in Nebraska, Colorado, Iowa, Kansas, Montana,
22 South Dakota, and Wyoming. Black Hills conducts its regulated electric and gas
23 utility businesses through three subsidiaries: Black Hills Power, Inc., Cheyenne

1 Light, Fuel and Power Company, and Black Hills Utility Holding, Inc. (BHUH).
2 BHUH is the entity acquiring SourceGas Holdings in the Transaction. Black Hills
3 conducts its non-regulated energy businesses through its subsidiary, Black Hills
4 Non-Regulated Holdings, LLC.

5 BHUH is the parent company to Black Hills' regulated utility providers in
6 Nebraska, Colorado, Iowa, and Kansas. Those utilities, including Black Hills'
7 existing Nebraska gas utility, Black Hills/Nebraska Gas Utility, conduct business
8 as "Black Hills Energy." In addition, BHUH holds shared resources and assets,
9 including resources and assets related to gas supply services, information
10 technology, customer information, billing and collections, and call centers. In
11 Nebraska, Colorado, Kansas, and Iowa, the cost of the goods and services
12 provided by BHUH to the Black Hills Energy operating utilities (including Black
13 Hills/Nebraska Gas Utility) for the use of these shared resources are allocated
14 through a service agreement.

15 Black Hills Corporation also provides various corporate services (e.g.,
16 accounting, finance, human resources, information technology, risk management,
17 regulatory affairs, governance, legal services, etc.) to its affiliated companies in
18 the Black Hills Corporation system through Black Hills Service Company, LLC
19 ("Black Hills Service Company" or BHSC). The cost of the goods and services
20 provided by Black Hills Service Company to Black Hills/Nebraska Gas Utility for
21 the use of these shared resources are allocated to Black Hills/Nebraska Gas Utility
22 through a service agreement applying cost allocations approved by this
23 Commission.

1 Black Hills/Nebraska Gas Utility (“Black Hills Energy – Nebraska”) is
2 Black Hills’ existing regulated natural gas utility in Nebraska. Black Hills Energy
3 – Nebraska, and its predecessors-in-interest, has operated natural gas distribution
4 facilities in Nebraska for decades. Black Hills Energy – Nebraska’s primary
5 service area in Nebraska consists of approximately 200,000 natural gas customers
6 in or around 106 communities located in the eastern one-third of the state. Its
7 service areas, rates, terms, and conditions of service and other tariffs are on file
8 with the Commission. Black Hills Energy – Nebraska is also supported with the
9 significant resources provided by Black Hills and its various subsidiaries.¹

10 **Q. Who is acquiring whom?**

11 A. Black Hills Utility Holding, Inc. (BHUH) is acquiring SourceGas Holdings, LLC
12 from the SourceGas Owners: Alinda Investments LLC and Alinda Gas I Inc.
13 (collectively “Alinda”) and Aircraft Services Corporation, a subsidiary of
14 General Electric Company, and its affiliate GE Energy Financial Services. The
15 parties have entered into a Purchase and Sale Agreement (“Agreement”) dated
16 July 12, 2015. The proposed transaction will result in a change of control of
17 SourceGas Distribution’s Nebraska jurisdictional assets, and SourceGas
18 Distribution (which will be renamed as “Black Hills Gas Distribution LLC
19 d/b/a Black Hills Energy”) becoming another subsidiary of Black Hills
20 Holdings.²

21 **Q. Does the Transaction require approval in other jurisdictions?**

¹ Docket No. NG-0084, Joint Application filed August 10, 2015, pages 4-7.

² Docket No. NG-0084, Joint Application filed August 10, 2015, page 1.

1 A. Yes. BHUH and SourceGas Holdings, the indirect parent company of
2 SourceGas Distribution, is seeking approval of the Transaction from this
3 Commission, the Arkansas Public Service Commission, the Colorado Public
4 Utilities Commission, and the Wyoming Public Service Commission. The
5 Companies filed joint applications on August 10, 2015, with each state
6 regulatory commission. The Company stated that the Transaction does not
7 require approval from the Federal Energy Regulatory Commission (FERC).³

8 Black Hills stated that it would also need to comply with the Hart-
9 Scott-Rodino Antitrust Improvement Act of 1976 (“HSR Act”), which requires
10 that parties to certain proposed mergers or acquisitions provide information
11 for the Federal Trade Commission and the Department of Justice. Under the
12 HSR Act, the parties may not close their deal until the waiting period outlined
13 in the HSR Act as passed or the government grants early termination of the
14 waiting period.⁴ On August 25, 2015, Black Hills Corporation issued a press
15 release that the Federal Trade Commission granted early termination of the
16 waiting period under the HSR Act for the proposed acquisition of SourceGas
17 Holdings, Inc.⁵ No additional filings or approvals are required by the Federal
18 Trade Commission and the Department of Justice before the Transaction can
19 close.⁶

³ Docket No. NG-0084, Joint Application filed August 10, 2015, page 12.

⁴ Direct Testimony of Linden Evans, page 13, lines 12-18.

⁵ Black Hills Press Release dated August 25, 2015 (Exhibit DHM-1).

⁶ Response to Information Request PA-125 (Exhibit DHM-2).

1 ***B. Reason for the Transaction***

2 **Q. What is the reason for the Transaction?**

3 A. The Joint Application stated, “Black Hills recognized that investing in the
4 SourceGas Companies presented the opportunity to create a strong utility
5 with an enhanced operating scale and the potential for more efficient
6 delivery of services to the benefit of its customers and communities served as
7 a result of this Transaction.”⁷ The Transaction will expand Black Hills’
8 presence in Nebraska, Colorado, and Wyoming, while adding a new state,
9 Arkansas, to its utility portfolio.⁸

10 **Q. Why do the SourceGas Owners want to sell SourceGas?**

11 A. The Joint Applicants were unable to provide a reason why the SourceGas
12 Owners wanted to sell SourceGas. The parties explained that the SourceGas
13 Owners are not parties to this proceeding and the explanation was outside
14 “the possession, custody, and control of the SourceGas Companies. Mr.
15 Noone⁹ specifically is without knowledge or information as to why the
16 SourceGas owners decided to sell SourceGas.”¹⁰

17 **Q. Why did Black Hills want to acquire SourceGas?**

18 A. Black Hills stated, “Black Hills recognized that investing in the SourceGas
19 Companies presented the opportunity to create a strong utility with an

⁷ Docket No. NG-0084, Joint Application filed August 10, 2015, page 13.

⁸ Docket No. NG-0084, Joint Application filed August 10, 2015, page 14.

⁹ Mr. Michael Noone is the President and CEO of SourceGas LLC, the parent company of SourceGas Distribution.

¹⁰ Response to Information Request PA-1 (Exhibit DHM-3).

1 enhanced operating scale and the potential for more efficient delivery of
2 services to the benefit of its customers and communities served as a result of
3 this Transaction.”¹¹ The Transaction will expand Black Hills’ presence in
4 Nebraska, Colorado, and Wyoming while adding a new state, Arkansas, to its
5 utility portfolio.¹²

6 ***C. Overview of the Sales Process***

7 **Q. What was the process used to sell SourceGas?**

8 A. The Company stated that following the SourceGas Owners’ decision to sell
9 their investment in the SourceGas Companies, a “competitive bidding
10 process” was used.¹³ I requested information regarding the competitive
11 bidding process:

12 Information Request PA 1-02: Reference Direct Testimony of
13 Michael Noone, page 8, lines 20-21: Testimony references a
14 “competitive bidding process.”

- 15
- 16 a. Who managed and structured the bidding process for
 - 17 SourceGas?
 - 18 b. When did the competitive bidding process start?
 - 19 c. How many parties were provided bidding packages related
 - 20 to the sale of SourceGas?
 - 21 d. How many parties submitted bids for SourceGas during the
 - 22 competitive bidding process?
 - 23 e. How long did the competitive bidding process last?
 - 24 f. With how many parties did SourceGas enter into
 - 25 negotiations?
 - 26 g. Describe the process used by SourceGas in considering the
 - 27 bidders’ ability to provide cost-effective service in
 - 28 comparing bids. Provide all documents created by, or on
 - 29 behalf of, SourceGas relating in any way to your answer.

¹¹ Docket No. NG-0084, Joint Application filed August 10, 2015, page 13.

¹² Docket No. NG-0084, Joint Application filed August 10, 2015, page 14.

¹³ Direct Testimony of Michael Noone, page 8, lines 19-21.

- 1 h. What was the time frame for the negotiations with Black
2 Hills?
3 i. What made Black Hills' offer the best?¹⁴

4 **Q. What was the Companies' response?**

5 A. The Companies were unable to answer my request stating, "The only
6 information known to Mr. Noone and the SourceGas management team is
7 that a competitive bidding process was utilized under the management of J.P.
8 Morgan, which was hired by the owners of SourceGas Holdings. All other
9 information sought by Information Request PA 1-02 is outside the
10 possession, custody, control, and knowledge of Mr. Noone and the SourceGas
11 Companies."¹⁵

12 **Q. Did Black Hills believe they were participating in a competitive bidding
13 process for SourceGas?**

14 A. Yes. I asked Black Hills that very question. The response was "Yes. As GE and
15 Alinda had indicated to the public that SourceGas was for sale, Black Hills
16 could reasonably assume that other entities would also be submitting bids
17 for the purchase of SourceGas."¹⁶ As a follow on question, I asked if Black
18 Hills was aware of any other persons or entities looking into purchasing
19 SourceGas. The response was "No. Black Hills was informed by its investment
20 advisers that other entities were looking into purchasing SourceGas,

¹⁴ Response to Information Request PA-2 (Exhibit DHM-4).

¹⁵ Response to Information Request PA-2 (Exhibit DHM-4).

¹⁶ Response to Information Request PA-110 (Exhibit DHM-5).

1 however, Black Hills had no actual knowledge of the specific identity of
2 others at the time Black Hills submitted its bid.”¹⁷

3 [START HIGHLY CONFIDENTIAL] [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED].¹⁸ [END HIGHLY CONFIDENTIAL]

11 **Q. Was SourceGas aware that other bidders were considering purchasing**
12 **SourceGas?**

13 A. SourceGas stated that it was aware that multiple bidders were engaged with
14 its owners in the bidding process. However, the owners did not disclose the
15 number of bidders or the identity of the bidders.¹⁹

16 **Q. Why is knowledge that you have competition when bidding to purchase**
17 **an asset relevant?**

18 A. In an auction, the seller is attempting to get the best price, terms, and
19 conditions. Promoting a competitive bidding process benefits the seller and
20 can potentially result in the item being purchased at an artificially high price

¹⁷ Response to Information Request PA-110 (Exhibit DHM-5).
¹⁸ **HIGHLY CONFIDENTIAL** response to PA-5, **HIGHLY CONFIDENTIAL**-NE-PA-5F. page 12 (Exhibit DHM-6).
¹⁹ Response to Information Request PA-111 (Exhibit DHM-7).

1 through auction fever and a bidding war. If a motivated buyer desires the
2 item, the purchase price can be higher than what other informed bidders
3 would have paid for it. This can be amplified if the motivated bidder believes
4 there are other bidders and does not know how high those other bidders are
5 willing to go.

6 ***D. Black Hills' Bid***

7 **Q. Did you review the due diligence reports that support Black Hills'**
8 **decision to purchase SourceGas?**

9 A. Yes. Black Hills provided a copy of its due diligence report relied upon in
10 evaluating whether to acquire SourceGas. The report is comprehensive and

11 **[START HIGHLY CONFIDENTIAL]** [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED] **[END HIGHLY CONFIDENTIAL]**²⁰

18 **Q. How did Black Hills calculate the offer it made to purchase SourceGas?**

19 A. Black Hills stated that with the assistance of investment banking advisors, it
20 performed a valuation analysis of the SourceGas business in connection with

²⁰ Response to Information Request PA-3, **HIGHLY CONFIDENTIAL**-NE-PA-3A – Consolidated Due Diligence Report 07-02-15, pages 4-5 (Exhibit DHM-8).

1 its due diligence efforts.²¹ The Company provided the summary of its
2 valuation analysis. [START HIGHLY CONFIDENTIAL] [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]²³ [END HIGHLY CONFIDENTIAL].

10 **Q. What did Black Hills bid for the purchase of SourceGas?**

11 A. [START HIGHLY CONFIDENTIAL] [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]

²¹ Response to Information Request PA-112 (Exhibit DHM-9).
²² Response to Information Request PA-5, **HIGHLY CONFIDENTIAL-NE-PA-5G**, page 6. (Exhibit DHM-10).
²³ Response to Information Request PA-5, **HIGHLY CONFIDENTIAL-NE-PA-5G**, page 26-27. (Exhibit DHM-10).
²⁴ **HIGHLY CONFIDENTIAL** response to Information Request PA-115 (Exhibit DHM-11).
²⁵ Response to Information Request PA-113, **HIGHLY CONFIDENTIAL** Attachment NE-PA-113A-Indicative Bid (Exhibit DHM-12).

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED] [END HIGHLY CONFIDENTIAL]

8 **Q. Please explain the difference between the total equity purchase price**
9 **and the total consideration of \$1.89 billion.**

10 A. The sale price of \$1.89 billion includes reimbursements of an estimated \$200
11 million in capital expenditures through closing of the Transaction and the
12 assumption of \$720 million of debt projected at closing.²⁸

13 **Q. Did Black Hills pay too much for SourceGas?**

14 A. Black Hills' analysis indicated that they paid [START HIGHLY
15 CONFIDENTIAL] [REDACTED]. [END
16 HIGHLY CONFIDENTIAL] Whether that is too much could be argued. My
17 concern is whether the ratepayers of Nebraska will be asked to fund any
18 premium through higher rates.

²⁶ HIGHLY CONFIDENTIAL response to Information Request PA-115 (Exhibit DHM-11).
²⁷ Response to Information Request PA-113, HIGHLY CONFIDENTIAL Attachment NE-PA-113B
Revised Indicative Bid (Exhibit DHM-13).
²⁸ Docket No. NG-0084, Joint Application filed August 10, 2015, page 11.

1 ***E. Overview of the Joint Applicants' Proposed Transaction***

2 **Q. Please provide an overview of the proposed Transaction.**

3 A. SourceGas Owners agreed to sell and BHUH agreed to purchase up to 100%
4 of the ownership of SourceGas Holdings for a sale price of \$1.89 billion,
5 including reimbursement of an estimated \$200 million in capital
6 expenditures through closing of the Transition and the assumption of \$720
7 million of debt projected at closing.

8 Upon closing, BHUH will own 99.5% of SourceGas Holdings, the
9 indirect parent of the Nebraska jurisdictional utility, SourceGas Distribution.
10 There is an option provision whereby BHUH may acquire the remaining 0.5%
11 interest in SourceGas Holdings.²⁹

12 **Q. Please explain the reasoning behind the hold back of the 0.5% and why**
13 **BHUH will not initially acquire 100% of the ownership interest.**

14 A. All of Alinda's 50% ownership interests will be transferred, but only 49.5%
15 of the GE ownership is included in the initial transaction. An option to
16 purchase the remaining 0.5% of GE shares would be available 366 days after
17 the close.³⁰ The Company explained that, in order to preserve certain
18 beneficial tax attributes and avoid technical termination, the Transaction was
19 structured in two stages.³¹ When 50% or more of a partnership's member
20 interests are sold during a one-year period, a technical termination will
21 occur. SourceGas Holdings is an LLC, but has not affirmatively elected to be

²⁹ Docket No. NG-0084, Joint Application filed August 10, 2015, pages 10-11.

³⁰ Direct Testimony of Richard Kinzley, page 9, lines 12-21.

³¹ Direct Testimony of Richard Kinzley, page 8, lines 18-21.

1 treated as a corporation and thus is treated as a partnership for federal
2 income tax purposes. If all of GE's partnership interest were transferred, this
3 would represent a sale of 50% of SourceGas Holdings' partnership interests
4 and would cause a technical termination of SourceGas Holdings.³²

5 **Q. Why is avoiding a technical termination important?**

6 A. The two-part transfer is important in that 50% of the assets represented by
7 Alinda's shares will transfer to the new owners and the assets will continue
8 to be depreciated as if the transfer had not happened.

9 In a transfer of a partnership interest, the depreciable assets
10 represented by the GE 50% interest would receive a step-up tax basis to the
11 basis of the new owner (typically the purchase price). This step-up basis
12 resets the depreciation. This reset would result in the restart of depreciation,
13 and allow for the taking any accelerated depreciation. As I discuss in the
14 section on ADIT, there are benefits to the new owners in increased cash flow,
15 but those benefits come at a cost to the ratepayers as ADIT is set to zero.
16 (ADIT is typically a reduction to rate base).

17 ***F. Overview of Proposed Commitments***

18 **Q. Please provide an overview of the commitments of the parties following**
19 **the approval of the transaction.**

20 A. The following list includes the initial commitments:

³² Direct Testimony of Richard Kinzley, page 8, lines 4 through page 9, line 21.

- 1 • Black Hills will continue to operate SourceGas Distribution as a
2 jurisdictional utility in Nebraska as Black Hills Gas Distribution, d/b/a
3 Black Hills Energy.³³
- 4 • Initially, Black Hills will adopt all of SourceGas Distribution's existing
5 tariffs setting forth the rates, charges, rules, and regulations on file with
6 the Commission and anticipates changing only the provider name for
7 these tariffs.³⁴
- 8 • Initially, BHUH will operate SourceGas Distribution in fundamentally the
9 same way as that business is currently operated.³⁵
- 10 • In the near term, the functions of SourceGas' retail business, such as gas
11 supply contracting and management, system operation and maintenance
12 activities, safety and service reliability, customer service functions, billing
13 operations, and regulatory relationships will not be affected.³⁶
- 14 • There are no current plans to change the local management of SourceGas
15 Distribution.³⁷
- 16 • The Commission will continue to exercise the same degree of regulatory
17 oversight over the SourceGas Distribution utility operations as it does
18 today.³⁸
- 19 • Black Hills is committed to continuing SourceGas Distribution's system
20 integrity management efforts to ensure safe and reliable system

³³ Direct Testimony of Linden Evans, page 8, lines 18-20.

³⁴ Direct Testimony of Linden Evans, page 8, lines 20-22.

³⁵ Direct Testimony of Kyle White, page 8.

³⁶ Direct Testimony of Linden Evans, page 8, line 22 – page 9, line 2.

³⁷ Direct Testimony of Linden Evans, page 12, lines 5-6.

³⁸ Direct Testimony of Kyle White, page 8.

1 operations, including continuing SourceGas Distribution's System Safety
2 and Integrity Rider.³⁹

- 3 • Black Hills will commit to reasonable ring-fencing provisions, including
4 insulation from the activities of Black Hill's non-regulated subsidiaries;
5 separate money pool agreements for utility and non-utility subsidiaries;
6 separate books and records, charts of accounts, and financial statements;
7 shared administrative services with direct and allocated costs applied per
8 current cost allocation manuals; and affiliate transactions conducted only
9 in the ordinary course of business and in accord with Commission rules
10 and requirements. In regard to debt, the acquired assets will not be
11 pledged as security against non-utility debt, and any new non-utility
12 business activities will be without recourse to the acquired utilities.⁴⁰

13 **Q. Please summarize your thoughts on the Transaction.**

14 A. The amount paid and some of the terms and conditions I will discuss later in
15 my testimony raise concerns about whether this Transaction is fair to the
16 other Nebraska stakeholders and if it is in the best interest of the Nebraska
17 ratepayers. I will identify several areas that should be considered in the
18 Commission's deliberations and make recommendations for Conditions for
19 Approval should the Commission decide to approve the Joint Applicants'
20 request.

³⁹ Direct Testimony of Kyle White, page 9.

⁴⁰ Direct Testimony of Kyle White, pages 9-10.

- 1 • Impact Area 7 – Conservation and Environmental Protection: The effect
2 on the conservation of natural resources and preservation of
3 environmental quality

4 I will discuss each impact area.

5 **IV. IMPACT AREA 1 – SYNERGIES AND COST SAVINGS**

6 ***A. Overview***

7 **Q. What are the effects that you evaluated under Impact Area 1 – Synergies
8 and Cost Savings?**

9 A. Impact Area 1 – Synergies and Cost Savings focused on the effect of synergies
10 and cost savings on customers and employees. We considered the following
11 specific effects:

- 12 a. Evaluate economies of scale gained or lost as a result of the proposed
13 transaction
- 14 b. Analyze the amount and timing of synergies and cost savings from the
15 transaction
- 16 c. Determine how any expected economies of scale will benefit ratepayers
- 17 d. Analyze the impact to customers and how those savings would be passed
18 through to customers
- 19 e. Analyze the impact to Nebraska employees of both SourceGas and Black
20 Hills

21 ***B. Synergies and Cost Savings for the Benefit of Ratepayers***

22 **Q. What synergies and cost savings have the companies identified?**

1 A. Among the benefits identified was this general statement: “The combination
2 of SourceGas Distribution’s operations with Black Hills’ existing operations
3 will enhance operating scale, drive more efficient service delivery to the
4 benefit of customers, and bring a solid financial foundation and access to
5 substantial capital resources for the benefit of the local distribution system
6 and customers.”⁴¹

7 **Q. Did Black Hills’ due diligence indicate that there would be any savings**
8 **associated with the acquisition?**

9 A. Black Hills stated: [**START HIGHLY CONFIDENTIAL**]

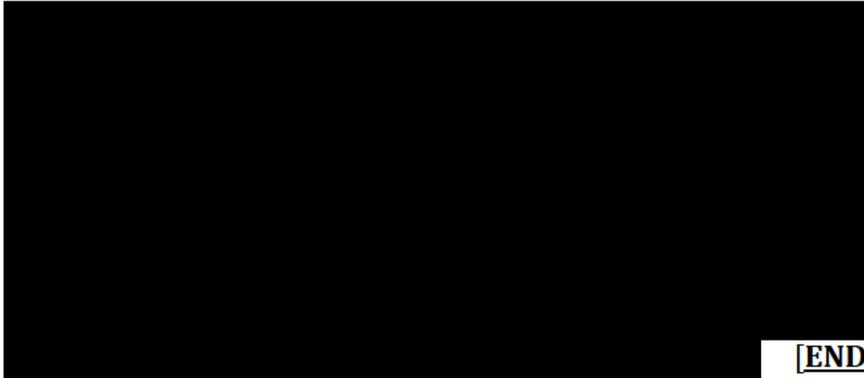
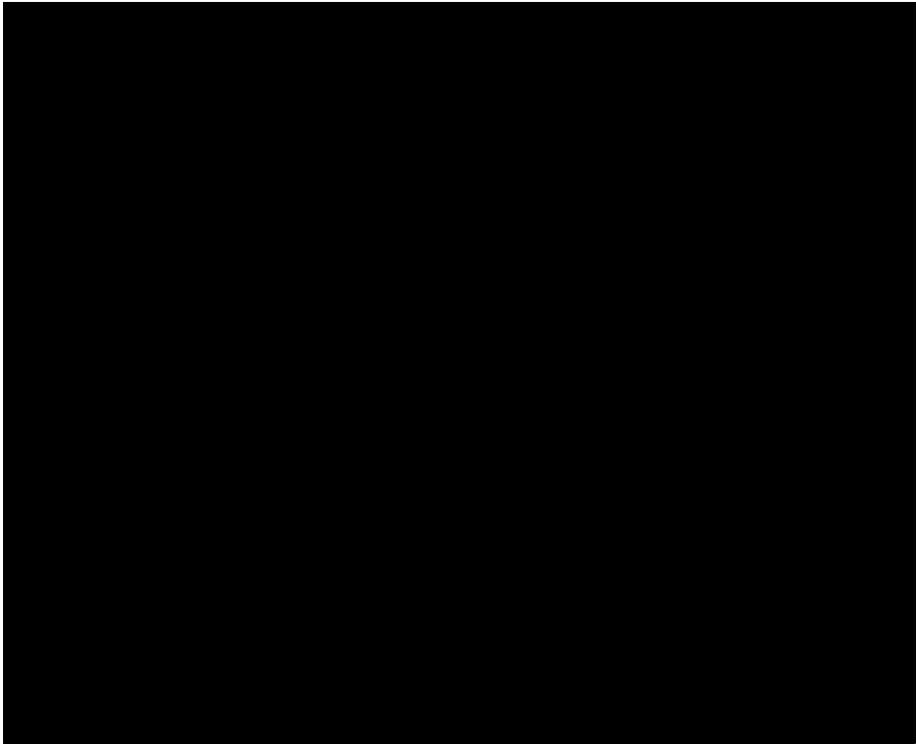
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⁴¹ Direct Testimony of Linden Evans, page 13, lines 3-6.

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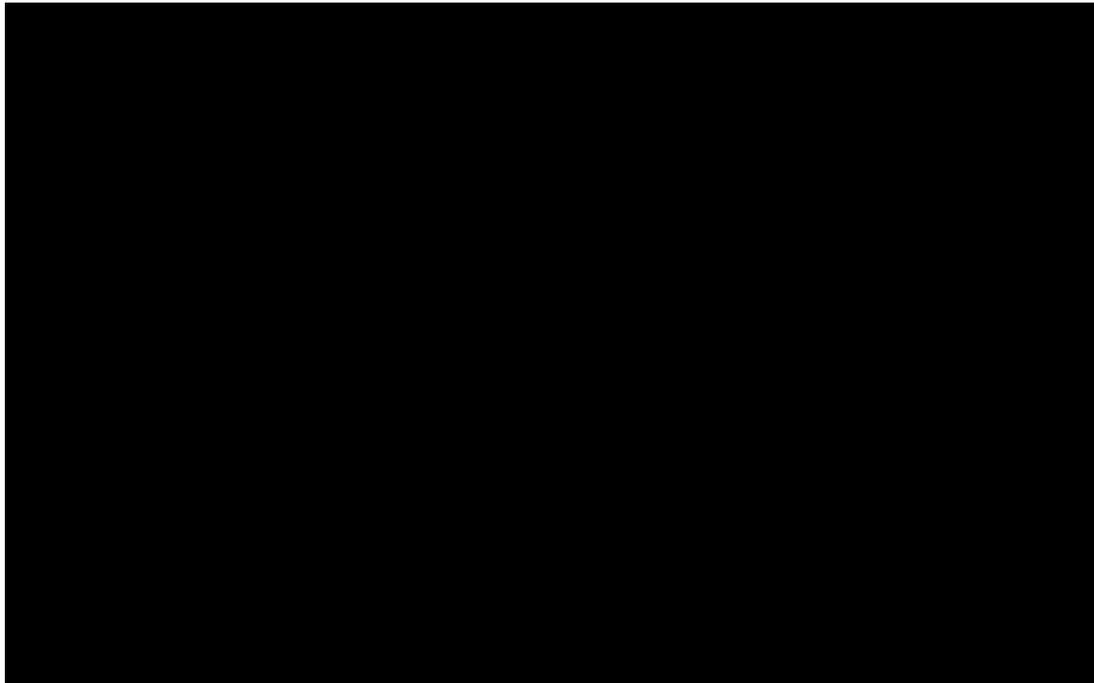
HIGHLY CONFIDENTIAL

Black Hills provided the following anticipated costs and savings from the Transaction from 2016 through 2020: [START HIGHLY CONFIDENTIAL]

⁴² HIGHLY CONFIDENTIAL response to Information Request PA-27 (Exhibit DHM-14).

1

Table 1: Schedule of Synergies⁴³



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3 **[END HIGHLY CONFIDENTIAL]**

4 **Q. Do the Companies plan to share any cost savings from the transfer of**
5 **ownership with customers?**

6 A. Black Hills stated that any cost savings achieved under Black Hills' ownership
7 would be shared with customers at the time of the next base rate case.⁴⁴

8 **Q. What is your conclusion regarding the Companies' presentation of**
9 **synergies and cost savings that justified this Transaction?**

10 A. Black Hills has identified a number of areas of potential savings and the costs
11 to achieve those savings associated with the Transaction. The preliminary
12 analysis indicates that there will be net savings within three years after the

⁴³ **HIGHLY CONFIDENTIAL** response to Information Request PA-27, **HIGHLY CONFIDENTIAL** Attachment NE PA-27 BKH Schedule of Synergies (Exhibit DHM-14).

⁴⁴ Response to Information Request PA 1-28 (Exhibit DHM-15).

1 closing. Black Hills has indicated that those savings would be shared with
2 customers at some point in the future. My concern is that there is no
3 guarantee that the savings will be achieved, and the costs to achieve those
4 savings could negatively impact Nebraska ratepayers without adding
5 Conditions for Approval should the Commission approve the Transaction.

6 ***C. Impact on Nebraska Employees***

7 **Q. How many people does SourceGas employ in Nebraska?**

8 A. SourceGas has 216 positions in Nebraska.⁴⁵ As of September 30, 2015, 206 of
9 these positions were filled with 10 open positions that are posted for
10 potential job applicants to apply.⁴⁶

11 **Q. Will any of Black Hills synergy savings impact SourceGas employees?**

12 A. Possibly. SourceGas provided a projection of the SourceGas complement for
13 each year between 2015-2019. **[START HIGHLY CONFIDENTIAL]**

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18 **[END HIGHLY CONFIDENTIAL]**

⁴⁵ Response to Information Request PA-29 (Exhibit DHM-16) and WP NE PA_1-29 response attachment.xlsx (Exhibit DHM-16).

⁴⁶ Response to Information Request PA-34 (Exhibit DHM-17).

⁴⁷ **HIGHLY CONFIDENTIAL** response to PA-33 (Exhibit DHM-18).

1 Black Hills stated that preparation to integrate SourceGas with BHUH
2 is just beginning. However, several of Black Hills' potential cost savings and
3 efficiencies are associated with labor realignment, workforce optimization
4 efforts to ensure there is no duplication of business functions, and the
5 consolidation of contracted services, all of which could impact individuals
6 employed or contracted to SourceGas.

7 **Q. Is there any protection for employees in Nebraska?**

8 A. Yes. Section 7.16 in the Purchase and Sale Agreement provides for one year
9 following the closing that continuing employees not subject to a collective
10 bargaining agreement will receive (i) base salary or hourly wage rate no less
11 than the base salary or hourly rate immediately prior to closing; (ii) bonus
12 and incentive opportunities that are no less than the bonus incentive
13 opportunities, if any, provided immediately prior to closing; and (iii)
14 employee benefits that are substantially the same, in the aggregate, as the
15 employee benefits provided immediately prior to closing.⁴⁸

16 **Q. What happens at the end of the year?**

17 A. BHUH has not developed a detailed integration plan and timeline for any
18 compensation and benefits changes beyond one year after closing.⁴⁹

19 **Q. The Agreement appears to cover non-union employees, how many of**
20 **the Nebraska employees are represented by a union?**

⁴⁸ Docket No. NG-0084 Application dated August 10, 2015, Joint Application Exhibit 5, pages 47-48 (Exhibit DHM-19).

⁴⁹ Response to Information Request PA-36 (Exhibit DHM-20).

1 A. There are 158 of the 216 employees in Nebraska represented by the
2 Communications Workers of American, AFL-CIO (CWA).⁵⁰ SourceGas has one
3 collective bargaining agreement in place for SourceGas employees. The
4 agreement expires April 30, 2016. The agreement also covers approximately
5 92 employees in Colorado and Wyoming.⁵¹

6 **Q. Have the Companies made any assurances to a labor organization with**
7 **respect to the transaction?**

8 A. Neither BHUH nor SourceGas have provided written assurances to any labor
9 organization.⁵²

10 **Q. How are Nebraska employees under a collective bargaining agreement**
11 **protected?**

12 A. While Section 7.16 of the Purchase and Sale Agreement does not cover
13 employees under a collective bargaining agreement, the union employees are
14 protected through collective bargaining and BHUH stated that SourceGas'
15 union contract will be transferred to BHUH upon closing.⁵³

16 **Q. Are there any concerns associated with the expiration of the collective**
17 **bargaining agreement prior to the Transaction closing?**

18 A. Yes. Black Hills' due diligence recognized that [**START HIGHLY**
19 **CONFIDENTIAL**] 

⁵⁰ Response to Information Request PA-29 (Exhibit DHM-16).

⁵¹ Response to Information Request PA-128 (Exhibit DHM-21).

⁵² Response to Information Request PA-32 (Exhibit DHM-22).

⁵³ Response to Information Request PA-129 (Exhibit DHM-23).

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[REDACTED]

[REDACTED]

[REDACTED].⁵⁴ [END HIGHLY CONFIDENTIAL]

Q. What is your recommendation?

A. I recommend that as a Condition for Approval, BHUH guarantee no net involuntary attrition for individuals employed in Nebraska for three years following the Transaction closing. The compensation and benefits of the non-union employees should be substantially comparable to other Black Hills employees in a similar position. SourceGas should negotiate an updated collective bargaining agreement or extension with the union, and that updated agreement would be transferred to Black Hills.

D. Summary and Recommendations

Q. Was there anything in your evaluation regarding Impact Area 1 - Synergies and Cost Savings - that results in a recommendation that the Commission reject the proposed Transaction?

A. No. However, the Commission should consider the following Conditions for Approval related to Synergies and Cost Savings: (1) any savings and the costs to achieve the anticipated savings should be quantified and reported to the Commission annually until the next base rate case, (2) Black Hills should be allowed to recover only costs to the extent they are matched dollar for dollar

⁵⁴ **HIGHLY CONFIDENTIAL** response to PA-3, **HIGHLY CONFIDENTIAL**-NE-PA-3A, page 7 (Exhibit DHM-8).

1 to the savings in its next two rate cases, and (3) any additional net savings
2 should be shared with customers.

3 To protect the Nebraska employees from any involuntary job loss
4 associated with labor realignment, workforce optimization efforts, and
5 consolidation of contracted services, the Commission should include a
6 Condition for Approval that there be no net involuntary job loss for
7 individuals employed in Nebraska for three years following the Transaction
8 closing. The compensation and benefits of non-union Nebraska employees
9 should be substantially comparable to other Black Hills employees in similar
10 positions. SourceGas should negotiate an updated collective bargaining
11 agreement or extension with the union and that updated agreement would
12 be transferred to Black Hills upon closing of the Transaction.

13 **V. IMPACT AREA 2 – SAFETY AND RELIABILITY**

14 **A. *Overview***

15 **Q. What are the effects that you evaluated under Impact Area 2 – Safety
16 and Reliability?**

17 A. Impact Area 2 – Safety and Reliability focused on the effect on public safety
18 and reliability of services. We considered the following specific effects:

- 19 a. Analyze safety record of Black Hills and compare with SourceGas’s safety
20 record
- 21 b. Analyze reliability record of Black Hills and compare with SourceGas’s
22 reliability record

- 1 c. Review expectations of any synergy and/or cost-cutting measures
2 proposed that could diminish service and quality
- 3 d. Analyze application and testimony discussion of SourceGas's
4 infrastructure replacement program to determine whether modifications
5 are proposed and/or the program's continuation is emphasized

6 ***B. Safety and Reliability Records of BHUH and SourceGas***

7 **Q. What results from benchmark tracking, industry reporting**
8 **requirements, and/or other recorded statistics have Black Hills Energy**
9 **- Nebraska and/or SourceGas Distribution produced regarding safety**
10 **and reliability?**

11 A. Regarding safety, both Black Hills Energy - Nebraska (BHE-N) and SourceGas
12 Distribution have reported OSHA incident rates for the last five calendar
13 years, which appear to be relatively constant for SourceGas Distribution,
14 while BHE-N's incident rate appears to be lowering.⁵⁵

15 BHE-N also participates in the annual AGA study to measure safety
16 statistics. In 2014, BHE-N received the Industry Leader Accident Prevention
17 Certificate for achieving Days Away Restricted or Transferred (DART) rates
18 below industry average.

19 Both SourceGas Distribution and BHE-N must adhere to the
20 Commission's pipeline safety requirements, promulgated by various federal
21 agencies, including the Department of Transportation. SourceGas

⁵⁵ Response to Information Request PA-39 (Exhibit DHM-24).

1 Distribution's Nebraska tariff also includes numerous provisions related to
2 pipeline safety and standards of service.

3 BHE-N has not participated in any studies to measure reliability
4 within the past five years.

5 **Q. How efficiently do the Companies respond to gas leaks?**

6 A. Comparisons of both companies indicate that the response time is very
7 good—on average less than 30 minutes (both companies averaged 27
8 minutes in 2014).⁵⁶

9 **Q. What do you conclude regarding the safety and reliability records for
10 the two companies?**

11 A. Both BHE-N and SourceGas Distribution have similar records regarding
12 safety and reliability. Both demonstrate prudent behavior in response to gas
13 leaks call outs, and both appear focused on maintaining lower OSHA incident
14 rates. Both companies operate in Nebraska and, therefore, have
15 demonstrated adherence to Nebraska statutes related to pipeline integrity,
16 prioritizing both safety and reliability.

17 ***C. Integration of Safety and Reliability Improvement Programs and***
18 ***Goals***

19 **Q. How does SourceGas Distribution currently approach safety and**
20 **reliability goals?**

⁵⁶ Response to Information Request PA-40 (Exhibit DHM-25).

1 A. SourceGas Distribution keeps a focus on safety and reliability performance
2 each year by setting a goal to improve over the prior year's safety numbers
3 by 10%.⁵⁷ Among safety areas tracked are (1) line hits, (2) open leaks, and
4 (3) number of on-the-job injuries (TCIR).⁵⁸

5 **Q. Does Black Hills Energy – Nebraska track the same goals as SourceGas
6 Distribution?**

7 A. Yes. BHUH has reported that the specific areas of safety tracking for
8 SourceGas Distribution are comparable to BHE-N, but specified only the
9 three areas mentioned above as being exactly similar.⁵⁹

10 **Q. Has BHUH compared the two utilities' safety and reliability goals and
11 focus on those goals?**

12 A. Not at this time. When asked that question, BHUH responded that, although it
13 does not believe integrating the safety and reliability goals of BHE-N and
14 SourceGas Distribution will adversely affect customers in Nebraska, a full
15 comparison of those goals has not yet been undertaken.⁶⁰

16 **Q. Has BHUH determined what best practices will be shared as a result of
17 the purchase of SourceGas Distribution?**

18 A. Not at this time. BHUH states that as of yet, no best practices have been
19 identified. However, BHUH does expect that a review of the business

⁵⁷ Response to Information Request PA-43 (Exhibit DHM-26).

⁵⁸ Response to Information Request PA-122 (Exhibit DHM-27).

⁵⁹ Response to Information Request PA-122 (Exhibit DHM-27).

⁶⁰ Response to Information Request PA-43 (Exhibit DHM-26).

1 practices of SourceGas Distribution and BHE-N will result in improvement of
2 system reliability. In fact, BHUH has stated that it plans to perform best
3 practice assessments and evaluate opportunities for consolidation in the
4 following areas: (1) operations and maintenance standards and manuals,
5 safety programs, technical training methods, and integrity management
6 planning; (2) the Click Mobile dispatching systems that both companies have
7 implemented in recent years; and (3) GIS mapping solutions, combined
8 company center line location projects, and digital as-builts for new
9 construction.⁶¹

10 **Q. What are the costs anticipated regarding the improvements associated**
11 **with these assessments?**

12 A. BHUH is unable to ascertain at this point whether there will be costs
13 associated with any improvements.⁶²

14 **Q. What do you conclude regarding the integration of the Companies'**
15 **safety and reliability improvement programs and goals?**

16 A. While BHUH states that philosophically safety and reliability are core values
17 or top priorities for both BHE-N and SourceGas Distribution, the integration
18 team has not yet completed its detailed review of SourceGas's operating
19 processes and systems and therefore cannot provide an answer as to how
20 integration will be conducted.⁶³

⁶¹ Response to Information Request PA-49 (Exhibit DHM-28).

⁶² Response to Information Request PA-49 (Exhibit DHM-28).

⁶³ Response to Information Request PA-51 (Exhibit DHM-29).

1 **Q. What do you recommend regarding the integration of the Companies’**
2 **safety and reliability improvement programs and goals?**

3 A. BHUH testifies that it does not currently anticipate any significant difficulties
4 in integrating the SourceGas Distribution safety and reliability goals,
5 emergency response philosophies and/or processes, and other related
6 programs.⁶⁴ However, BHUH has not yet determined the set of written
7 policies and procedures regarding safety and reliability that will govern both
8 BHE-N and SourceGas Distribution going forward after the sale. Therefore, I
9 recommend that either at closing or within a reasonable timeframe following
10 closing, as determined by the Commission, BHUH should make available to
11 the Commission those written policies and procedures regarding safety and
12 reliability by which the utility companies will operate. Those policies should
13 identify specific short-term and long-term goals to maintain and improve
14 reliability and demonstrate that they include the best practices of both
15 companies.

16 ***D. Customer Perception of Companies’ Operations***

17 **Q. How does SourceGas Distribution compare to Black Hills Energy-**
18 **Nebraska regarding customer operational and billing complaints?**

19 A. SourceGas Distribution customers have registered approximately 137
20 complaints regarding operations (non-billing) activities for the period 2011
21 through 2014. During the same period, BHE-N recorded a total of 72 similar
22 type complaints. While the gap closed somewhat regarding billing

⁶⁴ Response to Information Request PA-51 (Exhibit DHM-29).

1 complaints, BHE-N results were still better than those of SourceGas
2 Distribution (54 complaints for BHE-N and 82 complaints for SourceGas
3 Distribution).⁶⁵

4 **Q. Since the joint application was filed, has BHUH or any of the SourceGas**
5 **Companies scheduled and/or conducted community meetings to either**
6 **obtain customer input regarding expectations of reliability or to**
7 **provide company information regarding its expected reliability of its**
8 **systems?**

9 A. Neither SourceGas Companies nor BHUH or any of its family of companies
10 have scheduled or conducted any community meetings or conducted surveys
11 to determine customer expectations of reliability since the joint application
12 was filed. However, BHE-N does normally conduct customer surveys on a
13 periodic basis for its utilities.⁶⁶

14 **Q. What do you recommend regarding customer relations relative to the**
15 **sale and expectations for reliability?**

16 A. I recommend that, should the Commission approve the sale, immediately
17 after the approval, BHUH should begin scheduling and holding community
18 meetings to allow customers to communicate concerns regarding reliability
19 and to ensure that customers understand that the acquisition is not expected
20 to lessen reliability and safety standards that the customer has come to
21 expect. The results of those meetings should be communicated to the

⁶⁵ Response to Information Request PA-42 (Exhibit DHM-30).

⁶⁶ Response to Information Request PA-50 (Exhibit DHM-31).

1 Commission in written form and its Staff may wish to attend some of those
2 meetings for oversight.

3 Additionally, BHUH should set specific goals or metrics related to
4 customer complaints in regard to both operations and billing. Those goals
5 should ensure the proper training of customer representatives to answer
6 questions and provide timely and accurate responses to customer questions,
7 and associated procedures should explain activities or programs aimed at
8 reducing complaints related to operations.

9 ***E. SourceGas's Infrastructure Replacement Program***

10 **Q. Please contrast BHUH's and SourceGas Holding's philosophies**
11 **regarding the replacement of aging infrastructure?**

12 A. SourceGas Distribution's stated position is to strive to improve reliability and
13 safety of all pipeline systems for the benefit of the general public. BHUH's
14 philosophy is no different. Both companies evaluate aging infrastructure,
15 balancing risk according to capital budget constraints.

16 **Q. What programs has SourceGas Distribution established to replace aging**
17 **infrastructure?**

18 A. Primary SourceGas Distribution programs include top of ground pipe
19 replacement, bare steel distribution main replacement, ineffectively coated
20 transmission pipeline replacement, and town border station replacement.
21 Qualifying projects are included in the SourceGas Distribution's SSIR filings,

1 and a polyvinyl chloride pipe replacement program is expected to be
2 implemented in 2016.⁶⁷

3 **Q. Does BHUH plan to continue with SourceGas Distribution's**
4 **infrastructure replacement programs?**

5 A. BHUH will not yet commit to specific integrity management plans at this
6 time. The Company is still in the process of evaluating SourceGas's programs
7 and methods. However, BHUH did state that, based on their due diligence to
8 date, it does not expect significant differences in integrity management policy
9 or administration.

10 ***F. Summary and Recommendations***

11 **Q. Please summarize your conclusions and recommendations regarding**
12 **Impact Area 2 - Safety and Reliability.**

13 A. Regarding the records of both BHE-N and SourceGas Distribution, I conclude
14 that both companies demonstrate prudent behavior in response to safety and
15 reliability concerns. Both companies operate in Nebraska and have
16 demonstrated adherence to Nebraska statutes related to pipeline integrity,
17 prioritizing both safety and reliability.

18 Regarding integration of safety and reliability programs, including
19 infrastructure replacement, BHUH could not provide specific plans because
20 its transition team has not yet completed its review. I recommend, therefore,
21 that either at closing or within a reasonable timeframe following closing, as

⁶⁷ Response to Information Request PA-55 (Exhibit DHM-32).

1 determined by the Commission, BHUH should make available to the
2 Commission those written policies and procedures regarding safety and
3 reliability by which the utility companies will operate. Those policies should
4 identify specific short-term and long-term goals to maintain and improve
5 reliability and demonstrate that they include the best practices of both
6 companies.

7 Finally, regarding customer interaction, I recommend that, should the
8 Commission approve the sale, immediately after the approval, BHUH should
9 begin scheduling and holding community meetings for the interchange of
10 reliability concerns and assurances. The results of those meetings should be
11 communicated to the Commission in written form. Additionally, BHUH
12 should set specific metrics related to customer complaints to ensure a
13 focused approach toward reducing those complaints.

14 VI. IMPACT AREA 3 – FINANCIAL HEALTH

15 A. *Overview*

16 **Q. What are the effects that you evaluated under Impact Area 3 – Financial
17 Health?**

18 A. Impact Area 3 – Financial Health focused on the effect on ratepayers,
19 shareholder, the financial health of the utility, and the economy of Nebraska.

20 We considered the following specific effects:

- 21 a. Evaluate gain on sale and how gain is shared with ratepayers
- 22 b. Analyze the impact of the proposed transaction on rates

- 1 c. Determine whether any capital market implications result from the
2 transaction
- 3 d. Review whether the terms of the transaction would be detrimental to the
4 financial well-being of Black Hills

5 **B. Gain on Sale**

6 **Q. Is Black Hills' bid price for SourceGas Holdings in excess of SourceGas**
7 **Holdings' book value?**

8 A. Yes.

9 **Q. Will the SourceGas Holdings Owners receive a gain on the sale?**

10 A. Presumably. Black Hills' analysis indicates that SourceGas Owners purchased
11 SourceGas [START HIGHLY CONFIDENTIAL] [REDACTED]
12 [REDACTED]
13 [REDACTED] ⁶⁸ [END HIGHLY CONFIDENTIAL] Black Hills'
14 purchase of these companies for \$1.89 billion results in a significant gain on
15 the sale to the SourceGas Owners.

16 **Q. Will SourceGas Distribution's customers share in this gain?**

17 A. No. SourceGas Holdings responded that under the proposed Transaction, the
18 SourceGas Companies are not being paid any acquisition premium, and
19 "there is no authority under the State Natural Regulation Act to require the
20 SourceGas Companies to refund ratepayers the premium paid by Black Hills

⁶⁸ **HIGHLY CONFIDENTIAL** response to PA-5, **HIGHLY CONFIDENTIAL**-NE-PA-5B, page 1 (Exhibit DHM-33).

1 to the SourceGas owners.”⁶⁹ Based on the positions of BHUH and SourceGas
2 Holdings, the SourceGas Distribution ratepayers will not receive any benefit
3 of the sizeable premium paid that will enrich the SourceGas Owners.

4 **Q. Why should the SourceGas ratepayers receive any benefit from the gain**
5 **on the sale?**

6 A. The SourceGas Distribution customers have contributed to the value of the
7 SourceGas Distribution assets through their funding of the accelerated
8 infrastructure replacement programs and the rates they have paid through
9 base rates to support SourceGas Distribution’s assets. [START HIGHLY

10 CONFIDENTIAL] [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 [REDACTED]”⁷⁰ [END HIGHLY CONFIDENTIAL] The customers of SourceGas
14 Distribution have made a significant contribution to the value of SourceGas
15 Distribution through funding these riders.

16 To add insult to injury, the SourceGas Distribution ratepayers may
17 actually be requested to pay increased rates to allow BHUH to recover the
18 acquisition premium in a future rate case for value that the customers
19 created.

20 **Q. What do you recommend regarding the sharing of the gain on sale?**

⁶⁹ Response to Information Request PA 1-19d (Exhibit DHM-34).
⁷⁰ HIGHLY CONFIDENTIAL Response to Information Request PA-5, HIGHLY CONFIDENTIAL-NE-PA-5G (Exhibit DHM-10).

1 A. The SourceGas' Owners received financial gain from the sale of their
2 ownership of SourceGas Holdings, which, in a capitalistic market, is as it
3 should be. However, the customers of SourceGas Distribution have
4 contributed to the value of the company, and they should not be asked to pay
5 even more to cover the acquisition premium paid by Black Hills to acquire
6 SourceGas Holdings.

7 ***C. Impact on Rates***

8 **Q. Will Black Hills directly or indirectly increase its rates to jurisdictional**
9 **customers as a result of this Transaction?**

10 A. Not immediately. The existing rates, terms, and conditions of service to the
11 customers of Black Hills Energy – Nebraska will be maintained. All existing
12 tariffs will remain the same immediately after the Transaction.⁷¹ However,
13 Black Hills stated that it might seek recovery of certain costs associated with
14 this Transaction.

15 **Q. What specific costs related to the Transaction could be passed through**
16 **to ratepayers?**

17 A. Black Hills has indicated that the acquisition premium, transition costs, and
18 shareholder litigation were items potentially to be recovered from
19 ratepayers.

20 1. Acquisition Premium

21 **Q. What is an acquisition premium?**

⁷¹ Response to Information Request PA-118 (Exhibit DHM-35).

1 A. An acquisition premium is any portion of the purchase price that exceeds the
2 book value of the assets being acquired.

3 **Q. Is there an acquisition premium in this transaction?**

4 A. Yes. The acquisition premium embedded in the \$1.89 billion purchase price
5 is estimated to be in the range of \$925-\$950 million.⁷² This recognizable
6 goodwill is almost half of the \$1.89 billion sales price.

7 **Q. How does Black Hills expect to recover this sizable acquisition
8 premium?**

9 A. BHUH stated that it is not seeking Commission determination regarding its
10 ability to recover in rates any portion of the acquisition premium. However,
11 BHUH stated that it reserves the right to seek recovery of the acquisition
12 premium, or a portion thereof, in a future general rate filing. The Company
13 acknowledged that it would need to accomplish measurable qualitative
14 and/or quantitative customer benefits associated with its acquisition of
15 SourceGas to justify such recovery.⁷³ BHUH stated that its expectation of
16 retained cost savings supports the purchase price.⁷⁴

17 **Q. How does Black Hills anticipate allocating this goodwill among the
18 jurisdictions?**

19 A. Black Hills anticipates allocation of the estimated acquisition premium or
20 goodwill as shown in the following table. **[START CONFIDENTIAL]**

⁷² Response to Information Request PA-19a (Exhibit DHM-34).

⁷³ Direct Testimony of Richard Kinzley, page 17, lines 5-12.

⁷⁴ Response to Information Request PA 1-19c (Exhibit DHM-34).

1
2



3
4

END CONFIDENTIAL

5 **Q. What impact would this have on SourceGas ratepayers?**

6 A. As shown in the previous table, the preliminary estimation is that the
7 Nebraska operation could be allocated approximately [**START**
8 **CONFIDENTIAL**] [REDACTED] **END CONFIDENTIAL**
9 estimated acquisition premium. This amount would be recorded in an
10 acquisition premium account. If this Commission grants recovery of the
11 acquisition premium, ratebase would be increased by [**START**
12 **CONFIDENTIAL**] [REDACTED] **END CONFIDENTIAL**] in a future rate case.

13 **Q. Was there an acquisition premium in the previous transfer of control?**

14 A. In the previous transfer of the assets of SourceGas Holdings, the SourceGas
15 Owners acquired operational control and the assets from Kinder Morgan.
16 The Commission approved the transfer in Docket No. NG-0039 on February
17 27, 2007. The Joint Stipulation approved by the Commission specifically
18 stated:

19 The Applicants agree that any acquisition premium or
20 adjustment paid by the SourceGas Companies for Kinder
21 Morgan's Nebraska retail utility assets that are subject of this

⁷⁵ **CONFIDENTIAL** response to Information Request PA-116, **CONFIDENTIAL** Attachment PA 116-
SourceGas Goodwill Calculation Est (Exhibit DHM-36).

1 proceeding, as well as any transaction costs resulting from the
2 Transaction, shall be excluded from the utility accounts for rate
3 making and Commission financial reporting purposes and shall
4 not be recovered from ratepayers now or at any time in the
5 future.⁷⁶

6 **Q. What is your recommendation?**

7 A. I recommend that, should the Commission decide to approve the
8 Transaction, the Commission require the acquisition premium to be recorded
9 in Black Hills books as a separate account. However, I recommend that the
10 Commission not allow any portion of the acquisition premium in rate base in
11 which the company would earn a return. No recovery through amortization
12 should be allowed in cost of service nor should the acquisition premium be
13 allowed in rates through allocation or assignment by means of a corporate
14 overhead allocation.

15 2. Transaction Costs and Transition Costs

16 **Q. What are Transaction Costs?**

17 A. Transaction costs are those costs incurred to complete the acquisition prior
18 to signing the purchase agreement and those necessary to finalize the
19 documentation of the purchase and sale and close the transaction. These
20 costs can include fees paid to a financial intermediary, such as a bank, broker,
21 or underwriter; costs associated with performing due diligence on the
22 subject transaction, including financial and tax consulting work; and
23 communication charges and legal fees.

⁷⁶ Docket No. NG-0039, Joint Stipulation, page 7.

1 **Q. What is the total of estimated Transaction costs regarding this**
2 **Transaction?**

3 A. Black Hills estimated that the Transaction costs of this Transaction could be
4 between \$25 million and \$35 million.⁷⁷

5 **Q. Does Black Hills plan to seek recovery of Transaction costs?**

6 A. Black Hills stated that is will not seek recovery of Transaction costs in any
7 future proceedings.⁷⁸

8 **Q. What are Transition Costs?**

9 Transition costs are generally expenditures resulting from the
10 preparation and implementation of activities necessary to merge and
11 integrate the purchased entity into the acquiring entity. Black Hills stated
12 that these costs could include, but are not limited to, the following items:

- 13 • Internal labor and third party consultant costs incurred in performing
14 integration planning and integration execution work
- 15 • IT system conversion costs
- 16 • Costs incurred relative to changing the business name to Black Hills-
17 based names
- 18 • Severance and/or early separation payments, retention payments⁷⁹

19 **Q. Does Black Hills plan to seek recovery of Transition costs?**

⁷⁷ Response to Information Request PA-21 (Exhibit DHM-37).

⁷⁸ Direct Testimony of Richard Kinzley, page 18, lines 2-3.

⁷⁹ Response to Information Request PA-21, Attachment NE PA-21 T&T Cost Estimates (Exhibit DHM-37).

1 A. BHUH is requesting the Commission enter an accounting order to allow for
2 these transition costs to be deferred and recorded as a regulatory asset on
3 the books so that, if and when recovery is requested, a detailed accounting
4 will be provided to ensure all costs included can be reviewed.⁸⁰

5 **Q. What is the estimated amount of Transition Costs?**

6 A. Black Hills estimates that the Transition costs could potentially reach
7 between \$85 and \$90 million (both capital and O&M).⁸¹ Assuming a similar
8 allocation of 22 percent used for the allocation of the Acquisition Premium,
9 the Nebraska portion would \$18.7 million to \$19.8 million.

10 **Q. What is your recommendation regarding Transaction Costs and**
11 **Transition Costs?**

12 A. Black Hills stated it would not seek recovery of Transaction Costs in any
13 future proceeding. I recommend that the Commission confirm that
14 Transaction Costs are not recoverable.

15 For the estimated \$18.7 million to \$19.8 million costs allocated to
16 Nebraska for Transition costs, I recommend that the Commission enter an
17 accounting order to record these costs in a separate account. Black Hills
18 should be put on notice that recovery is not assured. Should Black Hills seek
19 recovery of Transition costs in a future rate case, it must provide in rate case
20 testimony (a) revenue requirement without the Transition costs, (b) the

⁸⁰ Direct Testimony of Richard Kinzley, page 17, lines 21-23 and page 18, lines 3-9.

⁸¹ Response to Information Request PA-21 (Exhibit DHM-37).

1 method of allocating the Transition Costs, and (c) specific, fully documented,
2 and quantifiable cost savings to justify any consideration of future recovery.

3 3. Shareholder Litigation

4 **Q. Please elaborate on the shareholder litigation costs?**

5 A. BHUH stated that while it has no shareholder litigation at this time, there
6 may be circumstances in which it may be appropriate for shareholder
7 litigation costs to be recovered through retail rates.⁸²

8 **Q. Please explain the nature of shareholder litigation costs?**

9 A. Shareholder litigation is typically a result of shareholders challenging the
10 decisions made by the senior officers and Board of Directors that have
11 impacted the value of the shareholders' investment in the Company. If
12 shareholders believe that the senior officers and Board of Directors have
13 breached their trust and made decisions that impact the value of the
14 shareholders' investment, lawsuits can arise.

15 **Q. What is your recommendation regarding shareholder litigation costs?**

16 A. I recommend that the Commission include a Condition for Approval denying
17 recovery of costs associated with any shareholder litigation that arises out of
18 this Transaction.

19 4. Accumulated Deferred Income Tax (ADIT)

20 **Q. Please explain the impact on rates regarding Accumulated Deferred**
21 **Income Tax (ADIT).**

⁸² Response to Information Request PA 1-26 (Exhibit DHM-38).

1 A. The Transaction will result in a partial reset of the Accumulated Deferred
2 Income Tax (ADIT) specific to the 50% GE ownership interest in SourceGas
3 Holdings.⁸³ The effect of this reset will increase rate base until the ADIT is
4 rebuilt by applying accelerated depreciation to the stepped-up basis
5 attributed to property, plant, and equipment.

6 **Q. Please explain ADIT?**

7 A. ADIT reflects the differences between income and/or expense amounts that
8 are included on the book income for one period but are on the income tax
9 return for a different period. These timing differences for plant-related items
10 are typically related to accelerated depreciation allowed for tax purposes
11 that differ from depreciation for book purposes.

12 **Q. What is causing the ADIT reset?**

13 A. Black Hills' acquisition of GE's ownership interest in SourceGas Holdings is a
14 direct transfer of a partnership interest. The IRS allows a partnership to elect
15 to "step-up" the basis of the assets when the partnership assets are
16 transferred.

17 **Q. Why doesn't this stepped up basis apply to the Alinda ownership?**

18 A. The Alinda portion of the Transaction is not a direct transfer of a partnership
19 interest and a step-up in the tax basis does not apply. Alinda is transferring
20 its ownership through a stock transfer.⁸⁴

⁸³ Direct Testimony of Richard Kinzley, page 13, lines 16-20.

⁸⁴ Direct Testimony of Richard Kinzely, page 15, line 20 through page 16, line 5.

1 **Q. Is there a benefit to Black Hills to take a stepped-up basis?**

2 A. Black Hills stated that taking a stepped-up basis will allow for depreciation
3 and amortization deductions that will result in a positive cash flow through
4 lower outflow of tax payments to the government. The resulting enhanced
5 cash flow will improve the financial viability of Black Hills.⁸⁵

6 **Q. Why is a reset of ADIT required following election of a stepped-up
7 basis?**

8 A. Under IRS normalization provisions, failing to reset ADIT in a step-up
9 transaction is a violation punishable by disallowing the use of accelerated
10 depreciation.

11 **Q. What is the impact to SourceGas Distribution customers?**

12 A. Rate base will increase resulting in a higher return of and return on the
13 investment. The increase to rate base is estimated at [START HIGHLY
14 CONFIDENTIAL] [REDACTED]
15 [REDACTED] [END HIGHLY CONFIDENTIAL]
16 until the ADIT balance is rebuilt through the use of accelerated depreciation.

17 **Q. What is your recommendation?**

18 A. Black Hills' partial reset of ADIT is prescribed by federal tax law
19 normalization rules and should be accepted. However, the Commission

⁸⁵ Direct Testimony of Richard Kinzely, page 14, line 14 through page 15, line 13.

⁸⁶ **HIGHLY CONFIDENTIAL** response to Information Request PA-3, **HIGHLY CONFIDENTIAL**-NE-PA-3A, page 11 (Exhibit DHM-8).

1 should require full accounting of the impact to rate base following the
2 Transactions close.

3 5. Cost of Capital

4 **Q. Are there other changes related to the Transaction that could impact**
5 **the costs to the Nebraska ratepayers?**

6 A. Yes. In addition to the costs for which BHUH stated they may request
7 recovery (acquisition premium, transition costs, and shareholder litigation),
8 the Transaction could potentially impact the Cost of Capital in the next rate
9 case.

10 **Q. Please elaborate.**

11 A. The cost of capital or rate of return is developed through three steps: (1)
12 determining the appropriate capital structure, which is comprised of
13 common equity and long-term debt; (2) determining the embedded cost rate
14 of debt; and (3) estimating the cost of common equity. Combining these three
15 steps into a weighted cost of capital results in an overall rate of return. Any
16 significant change in any of the components of these three steps could have a
17 significant change in the cost of capital.

18 **Q. Does this Transaction change any of the components used to calculate**
19 **the cost of capital?**

20 A. Yes. All of the components used to calculate the cost of capital will be
21 impacted by this Transaction. The Transaction will be financed through
22 BHUH assuming \$720 million of projected debt at closing; new, permanent

1 financing consisting of \$575 million to \$675 million of equity and equity-
2 linked securities; \$450 million to \$550 million of debt; and cash on hand or
3 revolver draw as needed.⁸⁷ While the cash on hand and revolver draw should
4 not impact the cost of capital, the additional equity and equity-linked
5 securities and the additional debt required to close this Transaction will
6 impact the cost of capital.

7 **Q. Has the Company provided an estimate of the cost of capital following**
8 **this transaction?**

9 A. No projections regarding the achieved cost of capital or rate of return
10 following the purchase of SourceGas Holdings were provided.⁸⁸ However, a
11 model was provided that shows an assumed rate of return for 2015 through
12 2025 of [**START HIGHLY CONFIDENTIAL**] [REDACTED]
13 [REDACTED]
14 [REDACTED]⁸⁹ [**END HIGHLY**
15 **CONFIDENTIAL**]

16 **Q. What is your recommendation regarding cost of capital?**

17 A. Black Hills should file annual reports of its realized cost of capital at the end
18 of each fiscal year. The filing should include the capital structure, embedded
19 cost of debt, and cost of common equity.

⁸⁷ Direct Testimony of Richard Kinzely, page 6, lines 3-7 and 18-22.

⁸⁸ **HIGHLY CONFIDENTIAL** response to Information Request PA-13 (Exhibit DHM-39).

⁸⁹ **HIGHLY CONFIDENTIAL** response to Information Request PA-13, **HIGHLY CONFIDENTIAL** NE PA-13_Nebraska Model for Black Hills Forecast (Exhibit DHM-39).

1 **D. Rate Case Filings**

2 **Q. When does Black Hills plan to file an application for a general rate**
3 **increase?**

4 A. The Company has not specifically stated when it plans to file its next general
5 rate case application. Of note, [START HIGHLY CONFIDENTIAL] [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED] ⁹⁰ [END
9 HIGHLY CONFIDENTIAL]

10 Black Hills' financial model for Nebraska assumes [START HIGHLY
11 CONFIDENTIAL] [REDACTED] ⁹¹ [END
12 HIGHLY CONFIDENTIAL]

13 **Q. Is there a requirement for how often SourceGas Distribution must file a**
14 **general rate cases?**

15 A. Yes. SourceGas Distribution has two riders, the Infrastructure System
16 Replacement Rider (ISR) (Docket No. NG-0072) and System Safety and
17 Integrity Rider (SSIR) (Docket No. NG-0078), have specific requirements
18 regarding when rate case filings must be made.

⁹⁰ **HIGHLY CONFIDENTIAL** response to PA-3, **HIGHLY CONFIDENTIAL**-NE-PA-3A, page 8 (Exhibit DHM-8).

⁹¹ **HIGHLY CONFIDENTIAL** response to Information Request PA-13, **HIGHLY CONFIDENTIAL** NE PA-13_Nebraska Model for Black Hills Forecast (Exhibit DHM-39).

1 The ISR was established under Nebraska Revised Statutes Chapter 66,
2 which includes the following language applicable to required base rate case
3 filing.

4 Section 66-1816:

5
6 (2) The commission shall not approve any infrastructure
7 system replacement cost recovery charge rate schedules for
8 any jurisdictional utility that has not had a general rate
9 proceeding decided or dismissed by issuance of a commission
10 order within the sixty months immediately preceding the
11 application by the jurisdictional utility for an infrastructure
12 system replacement cost recovery charge.

13 (3) A jurisdictional utility shall not collect an infrastructure
14 system replacement cost recovery charge rate for a period
15 exceeding sixty months after its initial approval unless within
16 such sixty month period the jurisdictional utility has filed for or
17 is the subject of a new general rate proceeding, except that the
18 infrastructure system replacement cost recovery charge rate
19 may be collected until the effective date of new rate schedules
20 established as a result of the new general rate proceeding or
21 until the general rate proceeding is otherwise decided or
22 dismissed by issuance of a commission order without new
23 rates being established.

24
25 The Commission approved the SSIR and included the following
26 requirement for the filing of a base rate case proceeding.

27 “The Commission finds that as a condition of implementing the
28 SSIR as set forth herein, SourceGas must not file a general rate
29 case prior to January 1, 2017. Furthermore, SourceGas must
30 file a general rate application pursuant to §66-1838 at least
31 every sixty (60) months.⁹²

⁹² Docket No. NG-0078, Order dated October 28, 2014, page 3.

1 SourceGas Distribution's last base rate case was effective June 1,
2 2012.⁹³ The next general rate case must be filed on or before May 30, 2017.
3 This appears to be a full year sooner than currently planned by Black Hills.

4 **Q. What do you recommend regarding the filing of the next rate case?**

5 A. The Nebraska Natural Gas Regulation Act ("Act") §66-1865 and Commission
6 Order in Docket NG-0078 require a rate case application to be filed within 60
7 months of the last base rate case. The required filing date of May 30, 2017,
8 could be less than one year after closing of the Transaction. If it does not
9 violate the Act allowing the ISR, and assuming the Transaction is approved,
10 the Commission should revise the timing of the general rate case filing to be
11 two years following the close of the Transaction. This additional time will
12 give Black Hills ample opportunity to integrate SourceGas Distribution into
13 its operations. In the next general rate case filings, Black Hills would report
14 out on the status of the integration of SourceGas Distribution and the various
15 other recommended items included within this testimony.

16 ***E. Capital Market Implications***

17 1. Stock Price

18 **Q. Is Black Hills Corporation's stock publicly traded?**

19 A. Yes. Black Hills Corporation is listed on the New York Stock Exchange
20 (symbol BKH).

⁹³ Docket No. NG-0067, Order dated May 22, 2012, page 27.

1 Q. What has been the impact on Black Hills Corporation's stock price since
2 the announcement of the acquisition of SourceGas Holdings?

3 A. As shown in the following figure, Black Hills Corporation's stock price
4 dropped immediately following the announcement of its acquisition of
5 SourceGas Holdings on July 12, 2015.

6 **Figure 1: Black Hills Corp Stock Price Following Announcement⁹⁴**



7
8 Q. Did this decline represent the investment community's concern for this
9 Transaction?

10 A. There are a number of forces involved with the decline in stock price. There
11 has been pressure on all utilities, including Black Hills, by expectations of

⁹⁴ Source: Schwab. \$SPX – S&P 500 Index. \$DJU – Dow Jones Utility Average Index.

1 rising interest rates. Black Hills' stock price has also been negatively
2 impacted by the declining and/or continued low crude oil and natural gas
3 prices. Lower commodity prices have reduced revenues for Black Hills' oil
4 and gas business, resulting in lower earnings for that segment.

5 Black Hills' announcement of its acquisition resulted in further decline
6 of its stock price. The Company believes that this event's specific cause of
7 decline is largely a result of investor uncertainty regarding the proposed
8 Transaction. In particular, investors want clarity about the terms of the
9 financing required to fund the transaction. Investors are uncertain about the
10 exact amount of debt and equity needed and at what price the financing will
11 be issued. Investors are also concerned about the uncertainty regarding the
12 logistics and timing of integration, the regulatory approval process, and the
13 impacts to Black Hills' credit ratings. All of these issues create uncertainty,
14 which generally pressures stock prices.⁹⁵

15 **Q. How does stock price impact the cost of capital?**

16 A. There are several models that can be used to estimate the cost of equity
17 capital, which is the capital structure item that is the most difficult to
18 determine. These include the Discounted Cash Flow (DCF), Capital Asset
19 Pricing Model (CAPM), Comparable Earnings (CE) and Risk Premium (RP)
20 methods. Each of these methods (or models) differs from the others and
21 each, if properly employed, can be a useful tool in estimating the cost of
22 common equity for a regulated utility. A component of the DCF calculation is

⁹⁵ Response to Information Request PA-12 (Exhibit DHM-40).

1 the company's stock price. The CAPM model is based on the direct
2 relationship between returns on common stock and market-to-book ratios of
3 common stock. So several of the models used to estimate the cost of equity
4 are influenced by a company's stock price.

5 2. Credit Ratings

6 **Q. How do credit ratings impact the cost of capital?**

7 A. The cost rates of debt are a component of the Cost of Capital and are largely
8 determined by interest payments, issue prices, and related expenses. Credit
9 ratings measure the overall credit strength; thus a company's credit ratings
10 influence the terms and conditions associated with any new financing. Higher
11 credit ratings typically result in a lower cost rate of debt. Poorer credit
12 ratings result in a higher cost rate of debt. There are three major rating
13 agencies: Standard & Poor's, Moody's, and Fitch.

14 **Q. What was Black Hills' and SourceGas' credit rating prior to the**
15 **announcement of the Transaction?**

16 A. Prior to the announcement of the Transaction, the companies' credit ratings
17 were as follows:

18 **Table 4: Credit Ratings Prior to Announcement of Transaction⁹⁶**

Rating Agency	Black Hills Corporation	Black Hills Power	SourceGas LLC
Moody's	Baa1	A1	Baa2
S&P	BBB	A-	BBB-
Fitch	BBB+	A	BBB-

19
⁹⁶ Response to Information Request PA-7 (Exhibit DHM-41) and Response to Information Request PA-8, NE AP_1-08 Rating Agency Summary (Exhibit DHM-42).

1 **Q. Have the companies' credit ratings changed since the announcement of**
2 **the Transaction?**

3 A. Since the announcement of the Transaction (through mid October), no
4 further reports from credit rating agencies have been issued on Black Hills.⁹⁷
5 However, Black Hills' stated that each of the agencies reaffirmed its rating for
6 Black Hills after it announced the acquisition of SourceGas Holdings.⁹⁸

7 A September 24, 2015, credit opinion for SourceGas indicated a *stable*
8 outlook with one of the considerations as the "potentially supportive
9 regulatory framework" in Nebraska. The report stated:

10 "In addition, the commission approved the Pipeline Integrity
11 Recovery Surcharge, providing an annual rate increase of \$1.1
12 million, a credit positive. On May 1, 2014, SourceGas
13 Distribution (SGD) filed for approval of the System Safety and
14 Integrity Rider (SSIR) and recovery of \$1.5 million for SSIR
15 projects completed in 2014. The NPSC approved SourceGas'
16 request to implement the SSIR and recover the costs for
17 projects completed in 2014. In addition, approvals have
18 already been concluded for the recovery of \$1.3 million for
19 costs incurred in 2015 for SSIR eligible projects. The approval
20 of riders like SSIR and the already implemented Infrastructure
21 System Replacement cost recovery charge could lead to an
22 improved opinion of the Nebraska regulatory environment for
23 SourceGas. These developments are credit positive and
24 evidence of a more supportive framework."⁹⁹

25 **F. Financial Well Being**

26 **Q. What is Black Hills' financial condition?**

27 A. Based upon the 2014 consolidated annual report, Black Hills is financially
28 sound. Earnings have continued to grow over the period 2011 to 2014 and

⁹⁷ Response to Information Request PA-136 (Exhibit DHM-43).

⁹⁸ Direct Testimony of Richard Kinzley, page 11, lines 19-20.

⁹⁹ Response to Information Request PA-137, PA-4-137 Attachment – SourceGas (Exhibit DHM-44).

1 the company has declared dividends to its shareholders.¹⁰⁰ In addition, Black
2 Hills has investment grade credit ratings from each of the three major credit
3 rating agencies.

4 **Q. Will this Transaction impact the financial well being of Black Hills?**

5 A. Based upon the credit rating agencies reaffirming Black Hills' investment
6 grade rating following the announcement of the Transaction and the recent
7 improvements in Black Hills stock price, the financial markets appear to
8 believe that the acquisition of SourceGas Holdings will not negatively impact
9 the financial well being of Black Hills.

10 Black Hills must integrate SourceGas Distribution into its system in
11 such a way as to accomplish measurable qualitative and/or quantitative
12 customer benefits with significant cost savings to justify the purchase price
13 and the significant acquisition premium. Continuing to maintain the
14 favorable opinion of the credit agencies and financial markets will be key to
15 keeping Black Hills' cost of capital reasonable and maintaining the financial
16 well being of the companies.

17 ***G. Summary and Recommendations***

18 **Q. Was there anything in your evaluation regarding Impact Area 3 -**
19 **Financial Health that results in a recommendation that the Commission**
20 **reject the proposed Transaction?**

¹⁰⁰ Direct Testimony of Richard Kinzley, Exhibit No. RK-2, pages 5 and 6.

1 A. Yes. As I discussed, there are costs that could be passed through to Nebraska
2 ratepayers that would be inappropriate if not addressed by this Commission.
3 Should the Commission approve the change in ownership control, I
4 recommend that several conditions, presented below, should be placed on
5 that approval.

6 SourceGas Distribution customers have contributed to the value of
7 SourceGas Distribution through multiple riders supporting the infrastructure
8 replacement programs. The funding of these capital investments contributed
9 to significant financial gain for the SourceGas Owners. SourceGas
10 Distribution customers should not also be asked to fund the acquisition
11 premium for the amount of the purchase price paid in excess of the book
12 value of SourceGas Holdings. I recommend that the Commission not allow
13 any portion of the acquisition premium in rate base in which the company
14 would earn a return. No recovery through amortization should be allowed in
15 cost of service nor should the acquisition premium be allowed in rates
16 through allocation or assignment by means of a corporate overhead
17 allocation.

18 The Commission should affirm that Black Hills will not seek recovery
19 of any Transaction costs.

20 SourceGas Distribution customers should not be required to refund
21 Black Hills for the estimated \$18.7 million to \$19.8 million costs allocated to
22 Nebraska for Transition costs. The Commission should enter an accounting
23 order to record these costs in a separate account. Black Hills should be put on

1 notice that recovery is not assured and that if any recovery of Transition
2 costs is allowed in a future rate case it must be fully documented, justified,
3 and supported by quantifiable cost savings.

4 The Commission should include a Condition for Approval denying
5 recovery of any costs associated with shareholder litigation that arises out of
6 this Transaction.

7 The Commission should allow Black Hills to take a partial stepped-up
8 basis and reset ADIT. The treatment is prescribed by federal tax law
9 normalization rules and should be accepted. However, the Commission
10 should require full accounting of the impact to rate base following the
11 Transactions close.

12 VII. IMPACT AREA 4 – OPERATIONS

13 A. *Overview*

14 **Q. What are the effects that you evaluated under Impact Area 4 –**
15 **Operations?**

16 A. Impact Area 4 – Operations focused on the effect on utility management and
17 administrative operations. We considered the following specific effects:

- 18 a. Review changes in organizational structure, roles, and responsibilities
- 19 b. Review change of parent corporate headquarters
- 20 c. Determine impact of major operational changes, if any
- 21 d. Determine impact of any change in overhead and administrative costs

1 ***B. Organizational Structure, Roles, and Responsibilities***

2 **Q. What organizational areas of operation are expected to change when**
3 **the sale is finalized?**

4 A. BHUH has stated that SourceGas Distribution will adopt BHUH's budgeting
5 process for capital as well as O&M. This adoption of process would include
6 the budget approval and reporting structure through Senior Management up
7 to the Board of Directors at a consolidated company level.¹⁰¹ BHUH has also
8 said in this area as in others, integration plans are still being developed and
9 evaluated and no firm operational changes have yet been established. BHUH
10 has no current plans to change the local management of SourceGas
11 Distribution.¹⁰²

12 **Q. What do you recommend with regard to the area of organizational**
13 **operational impact of the sale?**

14 A. I recommend that following the sale, as utility management and organization
15 of SourceGas Distribution change, BHUH notifies the Commission of any
16 major management and organization changes and their expected impact on
17 Nebraska customers until the transition period is complete.

18 ***C. Change of Parent Corporate Headquarters***

19 **Q. Is BHUH planning on establishing a new corporate headquarters in**
20 **Rapid City, South Dakota, from which direction will be given to**
21 **SourceGas after the sale?**

¹⁰¹ Response to Information Request PA-56 (Exhibit DHM-45).

¹⁰² Direct Testimony of Linden R. Evans, page 12, lines 5-6.

1 A. BHUH is building a new headquarters in Rapid City. Once complete, expected
2 in 2017, five other Rapid City BHUH corporate locations will be consolidated
3 in this one facility.

4 **Q. Will the new, consolidated headquarters be of benefit to Nebraska**
5 **ratepayers?**

6 A. Although the cost of the new facility is estimated at approximately \$70
7 million, BHUH believes benefits will outweigh the costs. First, the Company
8 estimates approximately \$13 million in savings from not having to maintain
9 the existing aging corporate offices. Additionally, BHUH enumerated several
10 benefits that the new facility would provide, including, among others,
11 attracting skilled employees; efficiencies of layout proximity for working
12 groups; elimination of redundant facility services, such as janitorial,
13 maintenance, and data/telecommunications; and reduction of administrative
14 overhead expenses.¹⁰³

15 **Q. What is the expected cost savings of these benefits brought by the new**
16 **headquarters facility?**

17 A. BHUH has not quantified the cost savings at this time.

18 **Q. Will SourceGas Distribution's Nebraska customers pay for the new**
19 **facility?**

20 A. Because SourceGas Distribution customers will benefit from services
21 provided by BHUH and BHSC (Black Hills Service Company) who will be

¹⁰³ Response to Information Request PA-65 (Exhibit DHM-46).

1 located in the new facility, SourceGas Distribution customers will pay an
2 allocated amount of the costs.

3 **Q. What is your recommendation regarding the planned new corporate**
4 **headquarters?**

5 A. Due to the level of investment in the new facility, I recommend that BHUH be
6 required to track the actual costs and benefits to consolidate the corporate
7 facilities not only within Rapid City but also regarding the effect of closing
8 SourceGas Holdings's current corporate facility in Colorado. Most of the
9 benefits suggested by BHUH should be quantifiable, and the company should
10 then be able to demonstrate to the Commission how those benefits will flow
11 through to the Nebraska customers. This support should be provided prior to
12 the inclusion of the headquarters in rate base in a future base rate case.

13 ***D. Major Operational Changes***

14 **Q. What operational cost-cutting measures or procedural changes has**
15 **BHUH identified so far that will go into effect as a result of the sale?**

16 A. BHUH has not identified any specific operational changes that will go into
17 effect as a result of the sale.¹⁰⁴

18 **Q. Has the Company identified changes to capital and O&M plans and**
19 **commitments?**

20 A. BHUH is still in the process of evaluating the capital and O&M plans and
21 understanding the projects SourceGas Distribution had been anticipating.

¹⁰⁴ Response to Information Request PA-45 (Exhibit DHM-47).

1 BHUH has stated that it does not expect to make significant changes in the
2 areas of growth/expansion and pipeline integrity capital. However,
3 sustaining and platform capital spend is subject to refinement and change
4 based on the overall plans for SourceGas Distribution asset integration.¹⁰⁵

5 **Q. Will SourceGas billing, collection, and accounting systems and software**
6 **change?**

7 A. Yes. The SourceGas Distribution natural-gas-utility-only system will be
8 consolidated into a single, unified technology platform after the sale if closed.
9 BHUH has emphasized its experience at integrating and optimizing its utility
10 systems. The Company intends to utilize a uniform set of business practices
11 with its existing scalable technology platform to manage the associated
12 activities.

13 **Q. Based on the information provided by BHUH, what are your conclusions**
14 **and recommendations regarding impact of any major operational**
15 **changes?**

16 A. Due to the relatively limited amount of data provided regarding any
17 operational changes, I cannot offer an opinion on whether the sale will result
18 in impactful operational changes. Therefore, I recommend that a report
19 should be filed annually with the Commission until the transition period is
20 complete to identifying any major operational changes resulting from the
21 sale.

¹⁰⁵ Response to Information Request PA-46 (Exhibit DHM-48).

1 *E. Allocation of Overhead and Administrative Costs*

2 **Q. Does the Black Hills Service Company (BHSC) currently provide and**
3 **charge for services to BHUH utilities based on a cost allocation manual?**

4 A. Yes. Black Hills Service Company has a Cost Allocation Manual (CAM) in place
5 defining such elements as the organization of the service company,
6 departments, transaction coding, allocation factors, and loadings. Although I
7 did not do a complete audit on the CAM, based on my review, the CAM
8 appears to contain all elements expected for effective and appropriate
9 charging of costs (both direct and indirect) for the services the Black Hills
10 Service Company provides.¹⁰⁶

11 **Q. Does BHUH expect that its Service Company will provide services for**
12 **the acquired SourceGas utility guided by the current CAM in effect for**
13 **BHUH's other utility companies without changes?**

14 A. Regarding methodology, yes. Of course, integrating SourceGas Distribution
15 into its scheme of allocated and direct charges will necessarily require
16 changes to allocated portions. However, BHUH does not expect the
17 methodology to be altered.¹⁰⁷

18 **Q. Does the Service Company CAM differ significantly from SourceGas**
19 **Distribution's current Cost Assignment and Allocation Manual?**

20 A. No. While differences, of course, exist in the details of methodology of cost
21 allocation, from my review, I found no significant differences that will

¹⁰⁶ Response to Information Request PA-81 (Exhibit DHM-49).

¹⁰⁷ Response to Information Request PA-81 (Exhibit DHM-49).

1 significantly change cost allocation philosophy and result in significant
2 impact regarding ratepayer concerns.¹⁰⁸

3 **Q. Will the Service Company be the only BHUH company to charge costs to**
4 **SourceGas Distribution?**

5 No. BHUH will also charge certain direct and indirect costs for activities
6 provided for the utility. BHUH provides and charges for services guided by its
7 own cost allocation manual, which is similar to the Service Company CAM.
8 BHUH and the Service Company will be the primary companies with which
9 SourceGas Distribution will have an affiliate transactional relationship.
10 Support services for SourceGas Distribution, however, could include
11 employees from other affiliates and subsidiaries.¹⁰⁹

12 **Q. Does BHUH anticipate any transactional relationship between**
13 **SourceGas Distribution and any of the Black Hills non-regulated**
14 **holdings?**

15 A. No.¹¹⁰

16 **Q. What do you conclude and do you have any recommendations in regard**
17 **to the impact of any changes in allocation of overhead and**
18 **administrative costs?**

19 A. I conclude that, based on the presentation of BHUH documents and
20 characterizations, there will be no significant impacts to the allocation of

¹⁰⁸ Response to Information Request PA-84 (Exhibit DHM-50).

¹⁰⁹ Response to Information Request PA-83 (Exhibit DHM-51).

¹¹⁰ Response to Information Request PA-87 (Exhibit DHM-52).

1 overhead and administrative costs due to the sale. However, I recommend
2 that Black Hill file with the Commission the Cost Assignment and Allocation
3 Manual (CAAM) adopted post closing.

4 ***F. Ring Fencing***

5 **Q. Has Black Hills committed to any ring-fencing provisions in connection**
6 **with its acquisition of SourceGas Distribution?**

7 A. Yes. Black Hills stated they would extend ring-fencing provisions similar to
8 those implemented in connection with Black Hills' other acquisitions. These
9 would include the following.

10 "1. Non-regulated activities:

- 11
- 12 a. The holding company structure provides insulation
 - 13 from the activities of Black Hills' non-regulated
 - 14 subsidiaries including the independent power
 - 15 production, coal mining and the oil and gas segments of
 - 16 Black Hills.
 - 17 b. Separate money pool agreements for utility and non-
 - 18 utility subsidiaries will be maintained.
 - 19 c. Separate books and records, charts of account and
 - 20 financial statements will be maintained for the acquired
 - 21 utilities.
 - 22 d. Black Hills will provide shared administrative services
 - 23 with direct and allocated costs applied to subsidiaries
 - 24 per Black Hills' current cost allocation manuals.
 - 25 e. Affiliate transactions will be conducted only in the
 - 26 ordinary course of business, and in accordance with
 - 27 Commission rules and requirements.

28

29 2. Debt:

- 30
- 31 a. The acquired assets will not be pledged as security
 - 32 against non-utility debt.

1 b. New stand-alone or project financing for non-utility
2 business activities will be without recourse to the
3 acquired utilities.”¹¹¹

4 **Q. What is your recommendation regarding ring fencing provisions?**

5 A. I recommend that the ring fencing provisions be modified to include that the
6 Nebraska entity will maintain separate bank accounts and that the financial
7 books and records must be made available for Commission review upon
8 request. Upon closing or shortly thereafter, the complete set of ring-fencing
9 provisions would be presented to the Commission for review and approval.

10 ***G. Summary and Recommendations***

11 **Q. Please summarize your conclusions and recommendations regarding**
12 **Impact Area 4 - Operations.**

13 A. Regarding organizational changes, because of the inherent difficulties in
14 determining organizational change prior to a sale, I recommend that
15 following the sale, as utility management and organization of the SourceGas
16 utility change, BHUH notifies the Commission of any material changes and
17 their expected impact on Nebraska customers until the transition period is
18 complete.

19 Regarding the establishment of Black Hills’s new corporate
20 headquarters and the level of investment required for the new facility, I
21 recommend that BHUH be required to track the actual costs and benefits to
22 consolidate the corporate facilities. The Company should demonstrate to the
23 Commission how those benefits will flow through to the Nebraska customers.

¹¹¹ Direct Testimony of Kyle White, page 9-10.

1 This support should be provided prior to the inclusion of the headquarters in
2 rate base in a future rate case.

3 Due to the relatively limited amount of data provided regarding any
4 operational changes, I cannot offer an opinion on whether the sale will result
5 in impactful operational changes. Therefore, I recommend that a report be
6 filed annually with the Commission until the transition period is complete
7 identifying any major operational changes resulting from the sale.

8 Regarding any changes in the allocation of overhead and
9 administrative costs due to the sale, I conclude that, based on the
10 presentation of BHUH documents and characterizations, there will be no
11 significant impacts. However, Black Hills should provide to the Commission
12 the Cost Assignment and Allocation Manual (CAAM) with the new allocation
13 percentage breakdowns to be used to assign costs to the new Black Hills Gas
14 Distribution, LLC (formerly, SourceGas Distribution).

15 Black Hills proposed ring-fencing provisions should be modified to
16 include that the Nebraska entity will maintain separate bank accounts and
17 that the financial books and records must be made available for Commission
18 review upon request. Upon closing, the complete set of ring-fencing
19 provisions would be presented to the Commission for review and approval.

20

1 **VIII. IMPACT AREA 5 – REGULATION**

2 ***A. Overview***

3 **Q. What are the effects that you evaluated under Impact Area 5 –**
4 **Regulation?**

5 **A.** Impact Area 5 – Regulation focused on the effect on the Commission’s ability
6 to regulate the new utility. We looked as the following specific effects:

- 7 a. Analyze the organizational structure of the purchaser to determine
8 impact of parent and/or affiliate companies
- 9 b. Review number and areas of jurisdictions in which the Purchaser
10 operates
- 11 c. Analyze the interrelationships of the regulated and non-regulated
12 companies owned by or affiliated with the purchaser

13 ***B. Analysis***

14 **Q. Structurally, how does BHUH plan to incorporate SourceGas**
15 **Distribution into its organization?**

16 BHUH provided organizational charts showing the complete structure
17 of the Black Hills family of companies prior to the acquisition and also as it
18 will be structured after the acquisition is finalized. BHUH, a subsidiary of
19 Black Hills Corporation, is a separate company from its affiliate, Black Hills
20 Non-Regulated Holdings, LLC. It will remain separated following the sale.
21 Additionally, SourceGas Holdings provided its own current organizational

1 chart showing the relationship between and among SourceGas Holdings and
2 all its subsidiaries.

3 Based on a review of the organizational structures as they exist and
4 that which is expected after the sale, I find that BHUH intends to incorporate
5 the SourceGas Companies without significant change in organizational flow.
6 SourceGas Holdings will be placed in direct report to BHUH. All SourceGas
7 subsidiaries to SourceGas Holdings will maintain their current lines of
8 organizational control.

9 **Q. Will the new organization and ownership impact the ability of the
10 Nebraska Commission to regulate the utility?**

11 A. Both Black Hills and SourceGas currently operate franchises in Nebraska.
12 There is no reason to believe that the change in ownership of SourceGas
13 Distribution would have an adverse effect on how the Public Service
14 Commission of Nebraska would regulate the combined utility.

15 **Q. What jurisdictional interests does BHUH currently hold?**

16 A. BHUH leads five utility companies: Black Hills/Colorado Utility Company,
17 LLC; Black Hills/Colorado Utility Company, LLC II; Black Hills/Iowa Gas
18 Utility Company, LLC; Black Hills/Kansas Gas Utility Company, LLC; and
19 Black Hills/Nebraska Gas Utility Company, LLC.

20 **Q. Has BHUH made regulatory commitments in other jurisdictions
21 regarding the acquisition of SourceGas that will impact Nebraska
22 ratepayers?**

1 A. BHUH states that the Black Hills family of companies in other jurisdictions
2 have complied with applicable acquisition-related regulatory requirements.
3 In addition, after the close of the various transactions and approval by
4 various commissions, Black Hills integrated those commissions' acquisition-
5 approval compliance requirements through rate or regulatory proceedings
6 or otherwise adopted and integrated those requirements into ongoing
7 business policies and practices. Thus, the current BHUH presentation of the
8 SourceGas sale transaction includes all requirements and/or regulatory
9 commitments currently engaged in by BHUH.¹¹²

10 ***C. Summary and Recommendations***

11 **Q. Please summarize your conclusions and recommendations regarding**
12 **Impact Area 5 - Regulation.**

13 A. I conclude that the Black Hills and SourceGas Holdings organizational
14 integration, based on the documents provided, are a reasonable convergence
15 of integrated companies and utilities. Both Black Hills and SourceGas
16 currently operate franchises in Nebraska. There is no reason to believe that
17 the change in ownership of SourceGas Distribution would have an adverse
18 effect on how the Public Service Commission of Nebraska would regulate the
19 combined utility. Additionally, there are no regulatory commitments
20 identified that should result in harm to current SourceGas Distribution
21 ratepayers.

¹¹² Response to Information Request PA-89 (Exhibit DHM-53).

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IX. IMPACT AREA 6 – COMPETITION

A. Overview

Q. What are the effects that you evaluated under Impact Area 6 – Competition?

A. Impact Area 6 – Competition focused on the effect of competition that impacts Nebraska and the ratepayers. We looked as the following specific effects:

- a. Review any documentation associated with the application and/or required by and submitted to FERC, regarding competition and providing
 - Detailed and appropriate tests of horizontal market power in the relevant markets
 - Demonstration of how the utility’s monopoly systems will provide adequate access to competitors and not result in any vertical market power
 - Proposed appropriate asset divestiture or other remedies in the case of either vertical or horizontal market power

B. Analysis

Q. Did BHUH supply FERC with competition documentation regarding the sale?

A. No. According to BHUH, there is no FERC-required documentation regarding competition.¹¹³

¹¹³ Response to Information Request PA-91 (Exhibit DHM-54).

1 **Q. Does BHUH anticipate market power issues regarding the sale?**

2 A. No. Based on the approvals obtained from the U.S. Federal Trade Commission
3 (FTC) and the Department of Justice following the Company's Hart-Scott-
4 Rodino Antitrust filing, no market power issues were identified or expected
5 in regard to the sale.¹¹⁴ Additionally, no expected negative impact is expected
6 on retail competition in regard to the sale as evidenced by the FTC
7 approval.¹¹⁵

8 **Q. Are there any other retail sales risks identified with regard to the sale?**

9 A. BHUH expects normal risks involved in the acquisition (e.g., some differences
10 in operations, marketing, financial strategies, etc.), but expects that they will
11 not be greater than those normally faced in current operations and will
12 ultimately be outweighed by the advantages gained from the acquisition.¹¹⁶

13 **Q. Will BHUH implement any immediate changes to current SourceGas
14 Customer Choice programs?**

15 A. No. According to BHUH, its initial review into SourceGas Distribution's
16 Choice Gas Program, conducted for due diligence in regard to the sale,
17 determined that (1) no opinions could yet be formed as to whether to
18 continue the program, and (2) all customer programs will be reviewed after
19 each program year.¹¹⁷

¹¹⁴ Response to Information Request PA-93 (Exhibit DHM-55).

¹¹⁵ Response to Information Request PA-94 (Exhibit DHM-56).

¹¹⁶ Response to Information Request PA-92 (Exhibit DHM-57).

¹¹⁷ Response to Information Request ACE-2 (Exhibit DHM-58).

1 Q. Did BHUH's due diligence review of SourceGas Distribution's Choice Gas
2 Program reveal possible expansion of the program to other BHUH
3 service areas in Nebraska?

4 A. BHUH did consider the possible expansion of the SourceGas Distribution
5 Choice Gas Program to other service areas in Nebraska but after review
6 rejected expansion plans.¹¹⁸ Furthermore, BHUH has its own consumer
7 choice program called Annual Price Option, which allows locking in a natural
8 gas price. The program is already in effect in Nebraska through Black Hills
9 Energy – Nebraska.¹¹⁹

10 Additionally, there is a cost-of-service gas (COSG) program that is
11 anticipated to be filed soon in Nebraska.¹²⁰ According to BHUH, [START

12 **HIGHLY CONFIDENTIAL]** [REDACTED]

13 [REDACTED]

14 [REDACTED] [END HIGHLY

15 CONFIDENTIAL]

16 C. *Summary and Recommendations*

17 Q. Please summarize your conclusions and recommendations regarding
18 Impact Area 6 – Competition.

19 Based on BHUH's statement that no changes will take place to
20 customer programs immediately upon closing of the sale (but that

¹¹⁸ Response to Information Request ACE-5 (Exhibit DHM-59).

¹¹⁹ Response to Information Request ACE-4 (Exhibit DHM-60).

¹²⁰ Response to Information Request ACE-8 (Exhibit DHM-61).

¹²¹ Response to Information Request PA-3, **HIGHLY CONFIDENTIAL**-NE-PA-3A – Consolidated Due Diligence Report 07-02-15, page 9 (Exhibit DHM-8).

1 evaluations will then occur), I recommend that the Commission require that
2 current SourceGas Distribution customer programs continue through the
3 2016-17 program year without modification. After two complete fiscal years
4 following the closing of the sale, a filing will be made to the Commission
5 reviewing the Choice Gas Program. The filing would report on the current
6 status of the program, identify any proposed changes and their potential
7 impact to Nebraska ratepayers.

8 **X. IMPACT AREA 7 - CONSERVATION AND ENVIRONMENTAL PROTECTION**

9 ***A. Overview***

10 **Q. What are the effects that you evaluated under Impact Area 7 -**
11 **Conservation and Environmental Protection?**

12 A. Impact Area 7 - Conservation and Environmental Protection focused on the
13 conservation of natural resources and preservation of environmental quality.

14 We looked as the following specific effects:

- 15 a. Review historical philosophy and activity of the Purchaser regarding
16 conservation and preservation of environmental quality
- 17 b. Evaluate proposed changes to conservation and environmental programs,
18 if any

19 ***B. Analysis***

20 **Q. What is Black Hills's philosophy regarding conservation and**
21 **environmental protection?**

1 A. Black Hills stated it is committed to providing safe, reliable, and affordable
2 energy in a manner that protects the environment and the interests of its
3 stakeholders. It has implemented this philosophy according to its code of
4 ethics and its integrated environmental management plan through the
5 following activities:

- 6 • Complying with environmental standards to provide the resources
7 required to meet this goal and to foster a culture of environmental
8 stewardship
- 9 • Operating in a manner that ensures Black Hills meets or surpasses
10 applicable environmental rules and regulations. Black Hills monitors
11 its operations to cost-effectively meet requirements and minimize risk
12 and liability
- 13 • Training operations employees to understand environmental
14 compliance requirements related to their job duties
- 15 • Providing regular reports to Senior Management and Black Hills'
16 Board of Directors regarding the status of environmental compliance,
17 issues and initiatives
- 18 • Participating in the development of new technologies that support
19 environmental efforts and provide stakeholder value
- 20 • Working with policy makers to ensure that they have access to the
21 best technical, scientific and economic information to develop public
22 policy that protects the environment as well as customers' and
23 shareholders' interests

- 1 • Working closely with state and federal agencies to comply with
2 environmental laws, regulations and standards

3 The Company further stated that it “believes responsible energy
4 development requires a commitment to environmental stewardship as well
5 as consideration of customer impacts, shareholder interests and responsible
6 natural resource development.”¹²²

7 **Q. Are any changes planned for the conservation and environmental**
8 **programs after the acquisition is approved?**

9 A. Black Hills stated that the newly acquired utilities will be managed in a
10 manner that is consistent with Black Hills’ current philosophies and
11 administered in a manner that is consistent with Black Hills’ current
12 programs. No determination has been made regarding specific changes.
13 However, Black Hills believes that it may be necessary to modify SourceGas
14 Distribution’s filing and compliance tracking system to make it compatible
15 with Black Hills’ system.¹²³

16 **Q. Were any environmental issues identified in Nebraska that must be**
17 **addressed by Black Hills?**

18 A. [**START HIGHLY CONFIDENTIAL**] [REDACTED]
19 [REDACTED]
20 [REDACTED]

¹²² Response to PA-130 (Exhibit DHM-62).

¹²³ Response to PA-130 (Exhibit DHM-62).

1

[REDACTED]

2

[REDACTED] [END HIGHLY CONFIDENTIAL]

3

C. Summary and Recommendations

4 Q.

Please summarize your conclusions and recommendations regarding Impact Area 7 – Conservation.

6 A.

Based upon Black Hills’ characterization of its environmental stewardship, there appears to be a proper focus on conservation and environmental protection. I recommend that a report be filed with the Commission documenting the new Black Hills Gas Distribution’s activities related to conservation and environmental protection as well as the status of the environmental issues identified during due diligence.

12

XI. CONCLUSIONS AND RECOMMENDATIONS

13 Q.

Following your review of the Transaction and the seven impact areas, would this transfer of ownership be consistent with the public interest and not adversely affect the utility’s ability to serve its ratepayers?

16 A.

No. The Transaction would not be in the best interest of the Nebraska ratepayers. As I discussed throughout my testimony, there are costs associated with the Transaction and other conditions that could adversely impact Nebraska ratepayers if not addressed by this Commission. Should the Commission approve the change in ownership control, I have recommended a number of Conditions for Approval that should be considered by this

¹²⁴ HIGHLY CONFIDENTIAL response to PA-3, HIGHLY CONFIDENTIAL-NE-PA-3A (Exhibit DHM-8).

1 Commission prior to approving the Transaction. These Conditions for
2 Approval address three major areas: Protecting SourceGas' Ratepayers,
3 Minimizing the Impact on SourceGas Employees, and Reporting
4 Requirements,

5 ***Protecting SourceGas' Ratepayers***

6 1) SourceGas Distribution customers have contributed to the value
7 of SourceGas Distribution through multiple riders supporting the
8 infrastructure replacement programs. The funding of these
9 capital investments contributed to significant financial gain for
10 the SourceGas Owners. SourceGas Distribution customers should
11 not also be asked to fund any portion of the \$925 million to \$950
12 million acquisition premium. The acquisition premium should
13 not be included in rate base in which the Company would earn a
14 return. No recovery through amortization should be allowed in
15 cost of service nor should the acquisition premium be allowed in
16 rates through allocation or assignment by means of a corporate
17 overhead allocation.

18 2) The Commission should affirm that Black Hills will not seek
19 recovery of any Transaction costs.

20 3) SourceGas Distribution customers should not be required to
21 refund Black Hills for the estimated \$18.7 million to \$19.8
22 million costs allocated to Nebraska for Transition costs. The
23 Commission should enter an accounting order to record these

1 costs in a separate account. Black Hills should be put on notice
2 that recovery is not assured and that if any recovery of
3 Transition costs is allowed in a future rate case it must be fully
4 documented, justified, and supported by quantifiable cost
5 savings.

6 4) Black Hills should be allowed to recover only costs to the extent
7 they are matched dollar for dollar to the savings in its next two
8 rate cases.

9 5) Any additional net savings should be shared with customers.

10 6) Any rate recovery of costs associated with shareholder litigation
11 that arises out of this Transaction should be denied.

12 7) The current SourceGas Distribution Choice Gas Program should
13 continue through the 2016-17 program year without
14 modification. After two complete fiscal years following the
15 closing of the sale, a filing will be made to the Commission
16 reviewing the Choice Gas Program. The filing would report on
17 the current status of the program, identify any proposed changes
18 and their potential impact to Nebraska ratepayers.

19 8) The Commission should allow Black Hills to take a partial
20 stepped-up basis and reset ADIT. The treatment is prescribed by
21 federal tax law normalization rules and should be accepted.
22 However, the Commission should require full accounting of the
23 impact to rate base following the Transactions close.

1 ***Minimizing the Impact on SourceGas' Employees***

2 9) To protect the Nebraska employees from any involuntary job
3 loss associated with labor realignment, workforce optimization
4 efforts, and consolidation of contracted services, there should be
5 no net involuntary job loss for individuals employed in Nebraska
6 for three years following the Transaction closing.

7 10) The compensation and benefits of non-union Nebraska
8 employees should be substantially comparable to other Black
9 Hills employees in similar positions.

10 11) SourceGas should negotiate an updated collective bargaining
11 agreement or extension with the union and that updated
12 agreement would be transferred to Black Hills upon closing of
13 the Transaction.

14 ***Reporting Requirements***

15 Should the Commission approve the sale, the following reporting
16 requirements are recommended.

17 **Post Closing Reporting:**

18 12) Should the Commission approve the sale, immediately after the
19 approval, BHUH should begin scheduling and holding
20 community meetings for the interchange of reliability concerns
21 and assurances. The results of those meetings should be
22 communicated to the Commission in written form.

1 13) Black Hills proposed ring-fencing provisions should be modified
2 to include the Nebraska entity will maintain separate bank
3 accounts and that the financial books and records must be made
4 available for Commission review upon request. Upon closing, the
5 complete set of ring-fencing provisions would be presented to
6 the Commission for review and approval.

7 14) Black Hills should file with the Commission the Cost Assignment
8 and Allocation Manual (CAAM) with the new allocation
9 percentage breakdowns to be used to assign costs to the new
10 Black Hills Gas Distribution, LLC (formerly, SourceGas
11 Distribution).

12 15) At closing or within a reasonable timeframe following closing, as
13 determined by the Commission, BHUH should make available to
14 the Commission those written policies and procedures regarding
15 safety and reliability by which the utility companies will operate.
16 Those policies should identify specific short-term and long-term
17 goals to maintain and improve reliability and demonstrate that
18 they include the best practices of both companies.

19 **As Events Occur Reporting:**

20 16) BHUH will notify the Commission of any material changes to
21 utility management and the organization of the SourceGas utility
22 including their expected impact on Nebraska customers until the
23 transition period is complete.

1 **Annual Filings:**

2 17) Following the close of the Transaction, any savings and the costs
3 to achieve the anticipated savings should be quantified and
4 reported to the Commission annually until the next base rate
5 case.

6 18) Black Hills should file annual reports of its realized cost of
7 capital at the end of each fiscal year. The filing should include the
8 capital structure, embedded cost of debt, and cost of common
9 equity.

10 19) BHUH should set specific metrics related to customer complaints
11 in regards to both operations and billings. Those goals should
12 ensure the proper training of customer representatives to
13 answer questions and provide timely and accurate responses to
14 customer questions. The Company should report on those
15 metrics to the Commission annually for three years following the
16 close of the Transaction to ensure a focused approach toward
17 reducing those complaints.

18 20) A report should be filed annually with the Commission until the
19 transition period is complete identifying any major operational
20 changes resulting from the sale.

21 21) A report should be filed annually with the Commission
22 documenting the new Black Hills Gas Distribution's activities
23 related to conservation and environmental protection as well as

1 the status of the environmental issues identified during due
2 diligence.

3 **Next Rate Case:**

4 22) Regarding the establishment of Black Hills's new corporate
5 headquarters and the level of investment required for the new
6 facility, BHUH should track the actual costs and benefits to
7 consolidate the corporate facilities. This support should be
8 provided prior to the inclusion of the headquarters in rate base
9 in a future rate case.

10 Should the Commission include the above as Conditions for Approval,
11 the best interest of the Nebraska ratepayers will be protected.

12 **XII. ADDITIONAL INFORMATION**

13 **Q.** [START HIGHLY CONFIDENTIAL] [REDACTED]
14 [REDACTED] ?

15 **A.** [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] . **[END HIGHLY CONFIDENTIAL]**

8 **Q. Does this conclude your direct testimony?**

9 A. Yes.

¹²⁵ **HIGHLY CONFIDENTIAL** response to PA-139 (Exhibit DHM-63).

ATTACHMENT A

Professional Experience and Education of Donna H. Mullinax

Summary

Mrs. Mullinax has over thirty-six years of financial, management and consulting experience. She has held the position of Vice President and Chief Financial Officer for the last 20 years and served on various Boards of Directors. She has extensive experience in project management; regulatory and litigation support; financial, administration, and human resource management. She has performed numerous financial, compliance and management audits. Mrs. Mullinax has excellent analytical skills and report writing capabilities. She has designed and implemented accounting and business systems and developed policy and procedure manuals to support those systems.

Key Qualifications and Selected Professional Experience

Financial, Administration, and Human Resource Management

As Chief Financial Officer and Vice President she is responsible for all aspects of financial, administration, and human resources. Her responsibilities include accounting, cash management, budgeting, tax planning and preparation, fixed assets, human resources, and employee benefits. Records under her control have been subject to an IRS compliance audit with no findings.

Project Management

Mrs. Mullinax has successfully managed numerous projects controlling cost, schedule, and scope. These projects included management, financial, and compliance audits, M&A due diligence reviews, economic viability studies, prudence reviews, and litigation/regulatory support for construction contract claims and regulatory proceedings. She works well with diverse team members and has an excellent ability to reconcile various viewpoints and establish and maintain effective working relationships among cross-functional teams.

Financial, Compliance, and Management Auditing

Mrs. Mullinax is a skilled auditor. She has performed numerous financial, compliance, and management audits for governmental entities, businesses, and public utilities. As a CPA and CIA, she is knowledgeable about sound internal control processes and procedures and has made numerous recommendations for modifications to provide reasonable assurance regarding the achievement of objectives related to (1) effectiveness and efficiency of operations; (2) reliability of financial records, and (3) compliance with laws and regulations.

She has also conducted detailed base rates revenue requirements and rider compliance audits. She has analyzed financial information and budget projections, performed risk identification, and evaluated performance against industry benchmarks. Her extensive professional experience allows her to effectively analyze and evaluate methods and procedures and to thoroughly document her findings. She has successfully testified to her audit findings.

- ❖ On behalf of the Connecticut Public Utilities Regulatory Authority, Diagnostic Management Audit of Yankee Gas Services Company. June 2014-April 2015. Lead Auditor responsible for the scope areas of accounting and financial reporting, internal audit practices, and capital/O&M budgeting.
- ❖ Before the Nebraska Public Service Commission (NEPSC) on behalf of the Public Advocate of Nebraska
 - NEPSC Application NG-0078.01, System Safety and Integrity Rider (SSIR) of SourceGas Distribution, LLC, November 2014 – February 2015
 - NEPSC Application NG-0078.02, System Safety and Integrity Rider (SSIR) of SourceGas Distribution, LLC, October 2015 - present

Project Manager and Lead Auditor. Led the review of the Company's applications for a system safety and integrity rider for compliance to the Commission directives. The reviews included a detailed mathematical verification and validation of support for the revenue requirements model and reviews of proposed plant to be placed in service and the verification of planned versus actually plant placed in service for the prior year. Summarized the transactional testing results and calculated the impact to the customer charge. Drafted the report including documentation of findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly support all work.

- NEPSC Application NG-0072.01, Infrastructure System Replacement Cost Recovery Charge (ISR Rider) of SourceGas Distribution, LLC May 2014-August 2014.
- NEPSC Application No. NG-0074, Infrastructure System Replacement Cost Recovery Charge (ISR Rider) of Black Hills/Nebraska Gas Utility Company, LLC, d/b/a Black Hills Energy, July-November 2013.
- NEPSC Application No. NG-0072, Infrastructure System Replacement Cost Recovery Charge (ISR Rider) of SourceGas Distribution, LLC March 2013-May 2013.

Project Manager and Lead Auditor. Led the review of the Company's applications for an infrastructure system replacement cost recovery charge (ISR Rider) for compliance to the Nebraska Natural Gas Regulation Act. The reviews included a detailed mathematical verification and validation of support for the revenue requirements model and reviews of plant work order supporting the requested recovery of utility plant in service. Summarized the transactional testing results and calculated the impact to the customer charge. Drafted the report including documentation of findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly support all work.

- ❖ On behalf of the Staff of the Public Utilities Commission of Ohio (PUCO)
 - Case No. 14-1628-EL-RDR: Delivery Capital Recovery (DCR) Rider Audit of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, Companies), December 2014-April 2015. Project Manager and Lead Auditor.
 - Case No. 13-2100-EL-RDR: Delivery Capital Recovery (DCR) Rider Audit of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, Companies), December 2013-May 2014. Project Manager and Lead Auditor.

- Case No. 13-0419-EL-RDR: Distribution Investment Rider (DIR) Audit of Columbus Southern Power Company and Ohio Power Company, d/b/a AEP-Ohio, March-August 2013. Project Manager and Lead Auditor.
- Case No. 12-2855-EL-RDR: Delivery Capital Recovery (DCR) Rider Audit of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, Companies), December 2012-July 2013. Project Manager and Lead Auditor.
- Case No. 11-5428-EL-RDR: DCR Rider Audit of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, Companies), November 2011 - May 2012. Project Manager and Lead Auditor.

Led the review to ensure the accuracy and reasonableness of the Companies' compliance with its Commission-approved infrastructure cost recovery rider filings. The review included a detailed mathematical verification and validation of the support of the riders' revenue requirements model, development of sensitivity analysis that supported the PPS sampling techniques used to isolate specific plant work order for further testing. Summarized the transactional testing results and calculated the impact to the rider's revenue requirements. Detailed variance analyses of historical data with investigations into any significant changes. Drafted the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly support all work performed.

- Case # 08-0072-GA-AIR Columbia Gas of Ohio for an increase in gas rates, April-August 2008
- Case # 07-0829-GA-AIR Dominion East Ohio for an increase in gas rates, November 2007-July 2008
- Case # 07-0589-GA-AIR Duke Energy Ohio for an increase in gas rates. November 2007-February 2008

Lead Auditor and assistant project manager. Performed a comprehensive rate case audit of companies' gas rate filings to validate the filings, provided conclusions and recommendations concerning the reliability of the information, and supported Staff in its evaluation of the reasonableness of the filing. Drafted the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly document work performed.

- ❖ On behalf of the Massachusetts Department of Public Utilities, Case No. D.P.U. 08-110, regarding the Petition and Complaint of the Massachusetts Attorney General for an Audit of New England Gas Company (NEGC), February-August 2010. Lead Auditor and Assistant Project Manager. Conducted a management audit on how NEGC manages its accounting and financial reporting functions and whether sufficient controls are in place to ensure that the information included in the company's filings can be reasonably relied upon for setting rates – areas reviewed included general accounting, financial reporting, and internal controls; plant accounting; income tax; accounts receivable; accounts payable; cash management; payroll; cost allocations; and capital structure. Developed the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly document work performed.
- ❖ On behalf of the Staff of the Connecticut Public Utilities Regulatory Authority (PURA), Docket 07-07-01: Diagnostic Management Audit of Connecticut Light and Power

Company, July 2008-June 2009, Lead Auditor and Assistant Project Manager. Performed an in-depth investigation and assessment of the company's business processes, procedures, and policies relating to the management operations and system of internal controls of the company's executive management, system operations, financial operations, marketing operations, human resources, customer service, external relations, and support services. In addition, supported an in-depth review of the development and implementation process of the company's new customer information system. Developed the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly document all findings.

- ❖ Before the Oregon Public Utilities Commission (ORPUC), Docket No. UP 205: Examination of NW Natural's Rate Base and Affiliated Interests Issues, Co-sponsored between NW Natural, ORPUC Staff, Northwest Industrial Gas Users, Citizens Utility Board, August 2005-January 2006, Lead Auditor and Assistant Project Manager. Examined NW Natural's Financial Instruments, Deferred Taxes, Tax Credits, and Security Issuance Costs to ensure Company compliance with orders, rules, and regulations of the ORPUC and with Company policies. Developed the report including documenting findings, conclusions, and recommendations and coordinated the accumulation of work papers to thoroughly document work performed.

Partial List of Reports and Publications

- Examination of SourceGas Distribution LLC Application for Recovery of 2015 Eligible System Safety and Integrity Costs on Behalf of the Nebraska Public Advocate, January 8, 2015
- Compliance Audit of the 2014 Delivery Capital Recovery (DCR) Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company, March 30, 2015
- Management Audit of Yankee Gas Services Company, April 3, 2015
- Examination of the Infrastructure System Replacement Cost Recovery Charge of SourceGas Distribution LLC, June 30, 2014
- Compliance Audit of the 2013 Delivery Capital Recovery (DCR) Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company, April 9, 2014
- Examination of the Infrastructure System Replacement Cost Recovery Charge of Black Hills/Nebraska Gas Utility, LLC d/b/a Black Hills Energy, October 4, 2013
- Compliance Audit of the 2012 Distribution Investment Rider (DIR) of Columbus Southern Power and Ohio Power Company d/b/a AEP-Ohio, June 19, 2013
- Examination of the Infrastructure System Replacement Cost Recovery Charge of SourceGas Distribution LLC, May 16, 2013
- Compliance Audit of the 2012 Delivery Capital Recovery (DCR) Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company, March 22, 2013
- Compliance Audit of the Delivery Capital Recovery (DCR) Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and the Toledo Edison Company, April 12, 2012
- Revenue Requirements Audit of New England Gas Company, May 12, 2011
- Accounting and Financial Reporting Review of New England Gas Company, August 5, 2010

- Management Audit of The Connecticut Light & Power Company, May 29, 2009
- Report of Conclusions and Recommendations on the Financial Audit of the Columbia Gas of Ohio, Inc. in Regards to Case No. 08-0074-GA-AIR, August 13, 2008
- Report of Conclusions and Recommendations on the Financial Audit of the East Ohio Gas Company d/b/a Dominion East Company in Regards to Case No. 07-0829-GA-AIR, April 16, 2008
- Report of Conclusions and Recommendations on the Financial Audit of Duke Energy Ohio, Inc. in Regards to Case No. 07-0589-GA-AIR, December 17, 2007
- Report of Conclusions and Recommendations of NW Natural's Rate Base and Affiliated Interest Issues in Support of Oregon Public Utilities Commission Docket UM1148, December 23, 2005

Regulatory and Civil Litigation

She has provided or supported civil or regulatory testimony in Arizona, Colorado, Connecticut, Delaware, Illinois, Maryland, Michigan, Missouri, New York, North Carolina, North Dakota, South Carolina, Texas, and Utah. She has also served as an advisor to public service commissioners in the District of Columbia and Connecticut. In addition to providing analytical support, she has served as an expert witness and routinely works with other highly specialized expert witnesses. She has developed defensible analyses and testimony in connection with rate cases, audit findings, and other regulatory issues. She has also supported various civil litigations including delay and disruption construction claims and financial fraud. She has supported counsel with interrogatories, depositions, and hearings/trials support.

Regulatory Proceedings

- ❖ Before the Arizona Corporation Commission on behalf of Staff
 - Docket No. E-04204A-15-0142 UNS Electric, Inc. August 2015 – present.
Expert Witness. Analyzed the company's rate increase filings and provided testimony offering adjustments for the Commission consideration related to the rate base and revenue requirements.
- ❖ Before the Nebraska Public Service Commission (NEPSC) on behalf of the Public Advocate of Nebraska
 - NEPSC Application NG-0078, SourceGas Distribution, LLC May 2014-November 2014.
Project Manager, Lead Auditor, and Expert Witness. Led the review of the Companies' applications to replace its infrastructure system replacement (ISR) cost recovery charge with a prospective System Safety and Integrity Rider (SSIR). The review included an analysis of the Company's projected revenue deficiency that lead to the request for the prospective SSIR. The SSIR was subject to a detailed mathematical verification and validation of support for the revenue requirements model and reviews of proposed projects supporting the requested recovery of utility plant in service. Testimony on the analysis will be filed in August 2014.
- ❖ On behalf of the Commissioners and Staff of the District of Columbia Public Service Commission (DCPSC)
 - Formal Case No. 1103 Potomac Electric Power Company (Pepco) base electric rate case, June 2013-present. Project Manager.

- Formal Case No. 1093 Washington Gas Light Company (WGL) base gas rates case, July 2011-July 2013. Project Manager.
- Formal Case No. 1087 Pepco base electric rates case, September 2011-December 2012
- Formal Case No. 1076 Pepco base electric rates case, July-December 2009
- Formal Case No. 1053 Pepco base electric rates case, February 2007-June 2008

Lead Consultant advising Commissioners and Staff of the Office of Technical and Regulatory Analysis regarding Company's proposed rate base, net operating income and revenue requirements. Assessed the companies' and Intervenor's positions on various issues and provided defensible recommendations for the Commissioners' consideration. Developed "what if" revenue requirement model used during Commission deliberations to analyze the impact of various adjustments. Supported the drafting of the Commission's Order and supplied the revenue requirement schedules to support the final decision. Supported the Commissioners' legal team in addressing motions for reconsideration.

- Formal Case No. 1106 Washington Gas Light Company (WGL) Interruptible Service Customer Class rates and related issues, February 2014-present. Lead Consultant and Project Manager. Led the effort to review the Distribution Charge Adjustment and proposed changes as well as the review of taxes, depreciation, and cash working capital within the customer class cost of service study.
 - Formal Case No. 1032 Pepco base electric rates case, January-March 2005. Senior Technical Consultant and Assistant Project Manager. Reviewed and evaluated Company's compliance filings for class cost of service and revenue requirements for distribution service pursuant to a settlement approved in May 2002. Provided analysis and recommended adjustments to Staff. Proceeding was settled in anticipation of a full rate case for rates to be effective August 8, 2007.
 - Formal Case No. 1016 WGL natural gas base rates case, June-December 2003. Senior Technical Consultant and Project Manager. Analyzed and recommended adjustments regarding the company's proposed increase to base rates – advised the Commission on party positions during deliberations Review and evaluation of company's depreciation study filed with the Commission.
- ❖ Before the Missouri Public Service Commission, Case No. HR-2011-0241, on behalf of the City of Kansas City: Veolia Energy Company 2011 and 2012 electric base rates case, July-September 2011. Senior Technical Consultant. Analyzed Company's proposed net operating income, rate base, and revenue requirements. Supported testifying witness with drafted testimony and development of a model to calculate an alternative revenue requirement incorporating recommended adjustments.
 - ❖ Before the North Dakota Public Service Commission, Case No. PU-10-657/PU-11-55: Northern States Power Company (NSP) 2011 and 2012 electric base rates case, April-November 2011. On behalf of the Commission Staff, Lead Consultant and Assistant Project Manager. Led the analysis of NSP's rate increase filings and supported adjustments for the Commission's consideration. Developed a model to calculate the appropriate revenue requirements and exhibits to support Staff recommended adjustments.
 - ❖ Before the Connecticut Public Utilities Regulatory Authority (PURA), Docket 10-02-13: Aquarion Water Company base rates case, on behalf of the PURA, April-August 2010. Senior Technical Consultant and Assistant Project Manager. Reviewed the expense

component of the company's revenue requirement and recommended adjustments for Staff consideration.

- ❖ Before the of the Delaware Public Service Commission on behalf of Staff
 - Docket No. 09-414: Delmarva Power & Light Company (DPL) electric base rates case, September 2009-May 2010. Expert Witness and Assistant Project Manager. Analyzed the company's rate increase filings and provided testimony offering adjustments for the Commission consideration related to the rate base and revenue requirements.
 - Docket No. 06-284: DPL's gas base rates case, October 2006-March 2007. Senior Technical Consultant and Assistant Project Manager. Analyzed the Company's filings, checked the mathematical accuracy of the Company's revenue requirements calculations, and provided analytical support to testifying witness.
- ❖ Before the Michigan Public Service Commission (MIPSC) on behalf of the Michigan Attorney General
 - Case No. U-15506: Consumers Energy Company base gas rates case, May-November 2008. Expert Witness and Assistant Project Manager. Analyzed the company's rate increase filings and provided testimony offering adjustments for the Commission consideration related to the rate base and revenue requirements – proceeding was settled through negotiations.
 - Case No U-15244 Detroit Edison electric base rates case, September 2007-October 2008.
 - Case No. U-15245 Consumers Energy Company base gas rates case, July 2007-April 2008.
Senior Technical Consultant and Assistant Project Manager. Analyzed the Company's filings, checked the mathematical accuracy of the Company's revenue requirements calculations, and provided analytical support to testifying witness.
 - Case No. U-14547 Consumers Energy Company base gas rates case, December 2005-April 2006. Expert Witness and Assistant Project Manager. Analyzed Company's rate increase filings and provided testimony offering adjustments for Commission consideration related to the rate base and revenue requirements.
- ❖ Before the Maryland Public Service Commission (MDPSC)
 - Case No. 9092 Pepco electric base rates case, on behalf of the Staff of the MDPSC, December 2006-June 2007. Expert Witness and Assistant Project manager. Analyzed Company's rate increases filings and provided direct and rebuttal testimony offering adjustments for the Commission consideration related to the rate base and revenue requirements.
 - Case No. 9062 Chesapeake Utilities Corporation gas base rates case, on Behalf of the Maryland Office of People's Counsel, May-August 2006. Expert Witness and Assistant Project Manager. Analyzed Company's rate increase filings and provided testimony offering adjustments for the Commission consideration related to the rate base and revenue requirements – participated in settlement negotiations that were ultimately accepted by all parties.
- ❖ Before the Illinois Commerce Commission, Case No. 05-0597, on behalf of the Illinois Citizens Utility Board, Cook County State Attorney's Office and City of Chicago,

November 2005-May 2006. Senior Technical Consultant and Assistant Project Manager. Analyzed the Company's filings, checked the mathematical accuracy of the Company's revenue requirements calculations, and provided analytical support to testifying witness.

- ❖ Before the Hawaii Public Utilities Commission (HPUC), Docket No. 05-0075: Instituting a Proceeding to Investigate Kauai Island Utility Cooperative's Proposed Revised Integrated Resource Planning and Demand Side Management Framework, On behalf of the Staff of the HPUC, June-November 2005. Senior Technical Consultant and Assistant Project Manager. Conducted and reported on the results of an industry survey of other cooperatives and Commissions to obtain an overview of how other entities approach the specific issues identified within this docket.
- ❖ Before the Public Utilities Commission of the State of Colorado (COPUC), Docket No. 04A-050E: Review of the Electric Commodity Trading Operations of Public Service Company of Colorado (PSCo), On behalf of the COPUC Staff, March-September 2004. Expert Witness and Assistant Project Manager. Performed a transaction audit of PSCo's electric commodity trading operations and submitted testimony describing the process used to conduct the investigation, a summary of the audit findings, and discussion of the significance of the findings.
- ❖ Before the New York Public Service Commission, Case No. 00-E-0612: Proceeding on Motion of the Commission to Investigate the Forced Outage at Consolidated Edison Company of New York, Inc.'s Indian Point No. 2 Nuclear Generation Facility, On behalf of Consolidated Edison Company of New York, Inc., October 2000-September 2003. Project Manager. Supervised cross functional teams to assist scheduling and nuclear engineering experts with responses to interrogatories and the development of three comprehensive rebuttal testimonies on the prudence of extended outages at the Indian Point 2 nuclear power plant. The proceeding settled prior to filing of testimony.

Civil Litigation

- ❖ ADF Construction vs. Kismet, On Behalf of ADF Construction, December 2003-February 2004. Assistant Project Manager for a delay and disruption construction claim related to a large hotel complex in North Carolina – worked with scheduling experts to determine schedule delay and disruption and calculated related damages.
- ❖ On behalf of New Carolina Construction, July 2002-January 2003
 - New Carolina Construction vs. Atlantic Coast
 - New Carolina Construction vs. Acousti

Project Manager for a delay and disruption claim related to construction of a large high school complex in South Carolina – worked with scheduling experts to determine schedule delay and disruption and calculated related damages. Claim was settled out of court.
- ❖ State of Nevada Bureau of Consumer Protection, September-December 2003. Assistant Project Manager for damage assessment project related to potential litigation regarding the Western Market Manipulation.
- ❖ Oakwood Homes, On behalf of Oakwood Homes, February 1999-May 2000. Assistant Project Manager for a delay and disruption claim related to the construction of a large manufacturing facility in Texas – worked with scheduling experts to determine schedule delay and disruption and calculated related damages. Dispute was settlement through mediation.

- ❖ McMillan Carter, On behalf of McMillan Carter, June-September 2002. Project Manager for a delay and disruption claim related to construction of a large high school complex in North Carolina – worked with scheduling experts to determine schedule delay and disruption and calculated related damages. Claim was settled out of court.
- ❖ Fluor Daniel Inc. vs. Solutia, Inc., On behalf of Fluor Daniel, May 2000-August 2001. Assistant Project Manager for a delay and disruption construction claim related to large chemical processing facility in Texas – worked with scheduling experts to determine schedule delay and disruption and calculated related damages. Dispute proceeded through mediation.
- ❖ First National Bank of South Carolina vs. Pappas, On Behalf of First National Bank of South Carolina, 1991-1992. Civil litigation, deposed during pre-trial discovery on analytical findings related to check kiting and fraudulent loan applications. Supported counsel and expert witnesses during civil proceeding.
- ❖ First Union vs. Pappas, On Behalf of First Union, 1991-1992. Civil litigation, deposed during pre-trial discovery on analytical findings related to check kiting and fraudulent loan applications. Dispute was settled out of court.

Testimony proffered

Before the Arizona Corporation Commission

- UNS Electric, Inc. – Docket No. E-04204A-15-0142

Before the Colorado Public Utilities Commission

- Public Service Company of Colorado - Docket No. 04A-050E

Before the Delaware Public Service Commission

- Delmarva Power & Light Company - Docket No. 09-414

Before the Maryland Public Service Commission

- Potomac Electric Power Company - Case No. 9092
- Chesapeake Utilities Corporation - Case No. 9062

Before the Michigan Public Service Commission

- Consumers Energy Company - Case No. U-15506
- Consumers Energy Company - Case No. U-14547

Before the Public Service Commission of Nebraska

- SourceGas Distribution LLC – Docket No. NG-0078

System Implementation

Mrs. Mullinax has worked with various business and local governmental entities to design and implement accounting and business systems that addressed real world problems and concerns. She has developed accounting policy and procedure manuals for county governments, a library, and a water utility.

Professional Experience

Blue Ridge Consulting Services, Inc.: 2004 - Present

Vice President and Chief Financial Officer

Senior Technical Consultant / Expert Witness

Hawks, Giffels & Pullin, Inc.: 1993 - 2004

*Vice President and Chief Financial Officer
Executive Consultant
Controller*

Cherry, Bekaert & Holland, CPAs: 1991 - 1993

*Accounting Supervisor
Senior Accountant
Staff Accountant*

Smith, Kline and French Pharmaceutical Company: 1988 - 1991

Professional Sales Representative

Milliken & Company: 1979 - 1988

*Quality Assurance Manager
Technical Cause Analyst
Department Manager*

Professional Certification

Certified Public Accountant (CPA), State of South Carolina - 1993
Certified Financial Planner (CFP) - 1994
Certified Internal Auditor (CIA) - 2006
Chartered Global Management Account (CGMA) - 2012

Professional Affiliations

Member of the American Institute of Certified Public Accountants (AICPA)
Member of the South Carolina Association of Certified Public Accountants (SCACPA)
Member of the Institute of Internal Auditors (IIA)
Member of the Western Carolinas Chapter of the Institute of Internal Auditors (WCIIA)

Education

Clemson University, B.S. Administrative Management with honors, 1978
Clemson University, M.S. in Management, 1979
College for Financial Planning, 1994
NARUC Utility Rate School, 32nd Annual Eastern

Exhibits of Donna H. Mullinax

Black Hills Corp. Receives Hart-Scott-Rodino Clearance for SourceGas Acquisition

By GlobeNewswire, August 25, 2015, 05:55:00 PM EDT

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RAPID CITY, S.D. - Aug. 25, 2015 - Black Hills Corp. (NYSE:BKH) today announced that on Aug. 18 the Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act for its proposed acquisition of SourceGas Holdings LLC. As announced on July 12, 2015, Black Hills entered into a definitive agreement to acquire SourceGas, an operator of four regulated natural gas utilities serving approximately 425,000 customers in Arkansas, Colorado, Nebraska and Wyoming and a 512-mile regulated intrastate natural gas transmission pipeline.

The transaction is also subject to regulatory approvals by the Arkansas Public Service Commission, Colorado Public Utilities Commission, Nebraska Public Service Commission and Wyoming Public Service Commission. Black Hills and SourceGas filed joint applications on Aug. 10, 2015, with each state regulatory commission requesting approval of Black Hills' acquisition of SourceGas. The transaction is expected to close in the first half of 2016.

Black Hills Corporation

Black Hills Corp. (NYSE:BKH) is a growth-oriented, vertically-integrated energy company with a tradition of improving life with energy and a vision to be the energy partner of choice. Based in Rapid City, S.D., the company serves 792,000 natural gas and electric utility customers in Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota and Wyoming. The company also generates wholesale electricity and produces natural gas, oil and coal. Black Hills Corp.'s more than 2,000 employees form partnerships and produce positive results for our customers, communities and shareholders. More information is available at www.blackhillscorp.com.

Caution Regarding Forward-Looking Statement

This news release includes "forward-looking statements" as defined by the Securities and Exchange Commission, or SEC. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this news release that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward looking statements, including the expected closing date of the transaction. These forward-looking statements are based on assumptions which we believe are reasonable based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including the factors discussed above, the risk factors described in Item 1A of Part I of our 2014 Annual Report on Form 10-K filed with

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- ▶ Black Hills Corp. Names Mark A. Schober to Board of Directors
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Referenced Stocks

- ▶ [BKH 50%](#) Rate It

Black Hills Corp. Receives Hart-Scott-Rodino Clearance for SourceGas Acquisition - NASDAQ.com

9/29/15, 5:23 PM

the SEC, and other reports that we file with the SEC from time to time.

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24-Hour Media Assistance

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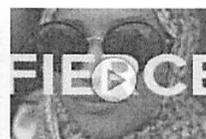
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BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-2
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
SECOND SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **October 2, 2015**
DATE RESPONSE DUE : **October 16, 2015**
DATE RESPONDED : **October 13, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Linn Evans**

REQUEST NO. PA-125:

Reference Direct Testimony of Linden Evans, page 13, lines 13-15: Is there any additional filings or approvals required by the Federal Trade Commission and Department of Justice before the Transaction can close.

RESPONSE: No.

ATTACHMENTS: None.

Response provided by:

BHUH Legal

**BLACK HILLS UTILITY HOLDINGS & SOURCEGAS COMPANIES
JOINT ACQUISITION APPLICATION
APPLICATION NO. NG-0084
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: September 02, 2015
DATE RESPONSE DUE: September 24, 2015
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Legal
DATE RESPONDED: September 24, 2015
SUBJECT: Noone Testimony-Page 8, lines 19-20

INFORMATION REQUEST PA 1-01:

Reference Direct Testimony of Michael Noone, page 8, lines 19-20: Testimony states "The SourceGas Owners decided to sell their investment in the SourceGas Companies..." Please provide an explanation as to why the owners of SourceGas made the decision to sell SourceGas.

RESPONSE:

The Joint Applicants in this matter have requested that the Commission approve the sale of SourceGas Holdings to Black Hills Utility Holdings. The relevant standard for determining whether to approve the transaction is whether the transaction will adversely affect the utility's ability to serve its customers. Therefore, Joint Applicant SourceGas Holdings objects to Information Request PA 1-01 as being irrelevant and outside the scope of this proceeding. Furthermore, this Information Request requests information from the SourceGas Owners, which are not parties to this proceeding, and the information requested is outside the possession, custody, and control of the SourceGas Companies. Mr. Noone specifically is without knowledge or information as to why the SourceGas owners decided to sell SourceGas.

ATTACHMENTS:

None.

**BLACK HILLS UTILITY HOLDINGS & SOURCEGAS COMPANIES
JOINT ACQUISITION APPLICATION
APPLICATION NO. NG-0084
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: September 02, 2015
DATE RESPONSE DUE: September 24, 2015
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Legal
DATE RESPONDED: September 24, 2015
SUBJECT: Noone Testimony-Page 8, lines 20-21

INFORMATION REQUEST PA 1-02:

Reference Direct Testimony of Michael Noone, page 8, lines 20-21: Testimony references a “competitive bidding process.”

- a. Who managed and structured the bidding process for SourceGas?
- b. When did the competitive bidding process start?
- c. How many parties were provided bidding packages related to the sale of SourceGas?
- d. How many parties submitted bids for SourceGas during the competitive bidding process?
- e. How long did the competitive bidding process last?
- f. With how many parties did SourceGas enter into negotiations?
- g. Describe the process used by SourceGas in considering the bidders’ ability to provide cost-effective service in comparing bids. Provide all documents created by, or on behalf of, SourceGas relating in any way to your answer.
- h. What was the time frame for the negotiations with Black Hills?
- i. What made Black Hills’ offer the best?

RESPONSE:

The Joint Applicants in this matter have requested that the Commission approve the sale of SourceGas Holdings to Black Hills Utility Holdings. The relevant standard for determining whether to approve the transaction is whether the transaction will adversely affect the utility's ability to serve its customers. Therefore, Joint Applicant SourceGas Holdings objects to Information Request PA 1-02 as being irrelevant and outside the scope of this proceeding.

Furthermore, SourceGas states that the only information known to Mr. Noone and the SourceGas management team is that a competitive bidding process was utilized under the management of J.P. Morgan, which was hired by the owners of SourceGas Holdings. All other information sought by Information Request PA 1-02 is outside the possession, custody, control, and knowledge of Mr. Noone and the SourceGas Companies.

**BLACK HILLS UTILITY HOLDINGS & SOURCEGAS COMPANIES
JOINT ACQUISITION APPLICATION
APPLICATION NO. NG-0084
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

ATTACHMENTS:

None.

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
SECOND SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **October 2, 2015**

DATE RESPONSE DUE : **October 16, 2015**

DATE RESPONDED : **October 13, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Rich Kinzley**

REQUEST NO. PA-110:

Reference response to Information Request PA 1-02:

- a. Did Black Hills believe they were participating in a competitive bidding process for SourceGas?
- b. Was Black Hills aware of any other persons or entities that were looking into purchasing SourceGas? If so, who were they?
- c. Was Black Hills aware of any other persons or entities that submitted a bid for SourceGas? If so, who were they?

RESPONSE: Objection. BHUH objects to this requests to the extent that it calls for information that is not relevant nor likely to lead to relevant information. BHUH further objects to this request to the extent that it seeks privileged Attorney Client Communications, Attorney Work Product, or legal opinion.

Without waiving or limiting its objection, BHUH responds as follows:

- a. Yes. As GE and Alinda had indicated to the public that SourceGas was for sale, Black Hills could reasonably assume that other entities would also be submitting bids for the purchase of SourceGas.
- b. No. Black Hills was informed by its investment advisers that other entities were looking into purchasing SourceGas, however, Black Hills had no actual knowledge of the specific identity of others at the time Black Hills submitted its bid.
- c. No. However, as GE and Alinda had indicated to the public that SourceGas was for sale, Black Hills could reasonably assume that other entities were also submitting bids for the purchase of SourceGas. Black Hills had no actual knowledge of others submitting a bid at the time Black Hills submitted its bid.

ATTACHMENTS: None.

Response provided by:

Jeff Berzina

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**BLACK HILLS UTILITY HOLDINGS & SOURCEGAS COMPANIES
JOINT ACQUISITION APPLICATION
APPLICATION NO. NG-0084
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: October 02, 2015
DATE RESPONSE DUE: October 16, 2015
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Legal
DATE RESPONDED: October 16, 2015
SUBJECT: PA 1-02; Bidder Info

INFORMATION REQUEST PA 2-111:

Reference response to Information Request PA 1-02:

- a. Was SourceGas aware of any other bidders considering purchasing SourceGas? If so, who?
- b. Was SourceGas aware of any other entities that submitted a bid for SourceGas? If so, who?

RESPONSE:

The Joint Applicants in this matter have requested that the Commission approve the sale of SourceGas Holdings to Black Hills Utility Holdings. The relevant standard for determining whether to approve the transaction is whether the transaction will adversely affect the utility's ability to serve its customers. Therefore Joint Applicant Source Gas Holdings objects to Information Request PA 2-111 as being irrelevant and outside the scope of this proceeding.

Notwithstanding these objections SourceGas responses as follows:

- a. SourceGas was aware that multiple bidders were engaged with its owners in the bidding process. However, the owners did not disclose to SourceGas the number of bidders or the identity of the bidders.
- b. Please see the Company's response to subpart (a) to this request.

ATTACHMENTS:

None.

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BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-9
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
SECOND SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **October 2, 2015**
DATE RESPONSE DUE : **October 16, 2015**
DATE RESPONDED : **October 13, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Rich Kinzley**

REQUEST NO. PA-112:

How did Black Hills calculate the offer or bid submitted by BHUH for SourceGas?

RESPONSE: Objection. BHUH objects to this requests to the extent that it calls for information that is not relevant nor likely to lead to relevant information. BHUH further objects to this request to the extent that it seeks privileged Attorney Client Communications, Attorney Work Product, or legal opinion.

Without waiving or limiting its objection, BHUH responds as follows:

With the assistance of investment banking advisor's, Black Hills undertook a valuation analysis of the SourceGas business in connection with it due diligence efforts leading up to the bid submittal. The valuation analysis is summarized in **HIGHLY CONFIDENTIAL-NE-PA-5G-Silver Bullet Potential Acquisition (Credit Suisse) 07-07-15.**

ATTACHMENTS: None.

Response provided by:

Jeff Berzina

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BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-15
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-28:

How does the Company plan to share any cost savings from the transfer of ownership with customers?

RESPONSE:

Any cost savings achieved under Black Hills' ownership will be shared with customers at the time of the next base rate change.

ATTACHMENTS: None

Response provided by:

Kyle White

**BLACK HILLS UTILITY HOLDINGS & SOURCEGAS COMPANIES
JOINT ACQUISITION APPLICATION
APPLICATION NO. NG-0084
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: September 02, 2015
DATE RESPONSE DUE: September 18, 2015
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Marsha Williams
DATE RESPONDED: September 18, 2015
SUBJECT: Noone Testimony: Page 6, lines 14-15

INFORMATION REQUEST PA 1-29:

Reference Direct Testimony of Michael Noone, page 6, lines 14-15: Testimony states, "SourceGas employs approximately 200 people in Nebraska." For those employees in Nebraska, please provide

- a. Job titles
- b. Number of persons employed by job title
- c. Whether the job is in a bargaining unit, and if so, which
- d. Residency

RESPONSE:

Please see the attached document "NE PA_1-29 response attachment .xlsx".for the items requested in subparts a through d of this request.

ATTACHMENTS:

NE PA_1-29 response attachment.xlsx

Title	# of positions	Union?	Residency?
Analyst - IT Desktop Support I	1		NE
Agent - Right-of-Way IV	1		NE
Assistant - Administrative I	3		NE
Assistant - Administrative II	4		NE
Assistant - Administrative III	1		NE
Coordinator - Compliance I	1		NE
Coordinator - Compliance IV	2		NE
Coordinator - Field	5		NE
Coordinator - Operations Processes II	1		NE
Coordinator - Pipeline Integrity III	1		NE
Coordinator - Public Awareness	1		NE
Coordinator - Safety III	1		NE
Coordinator - Technical Training & OQ III	1		NE
Director - Operations	1		NE
Engineer I	1		NE
Inspector - Construction II	2		NE
Manager - Community & Government Affairs	1		NE
Manager - Division Operations	5		NE
Manager - Load Growth	1		NE
Meter Reader 2 - CWA	1	Yes - CWA	NE
Meter Reader 4 - CWA	2	Yes - CWA	NE
Project Manager - Operations	2		NE
Representative - Inside Sales	1		NE
Representative - Load Growth Client Svcs I	1		NE
Representative - Load Growth Client Svcs III	1		NE
Representative - Load Growth Client Svcs IV	1		NE
Specialist - Customer Services II	1		NE
Specialist - Maintenance 1 CWA	3	Yes - CWA	NE
Specialist - Maintenance 2 CWA	2	Yes - CWA	NE
Specialist - Maintenance 4 CWA	3	Yes - CWA	NE
Specialist - Maintenance 5 CWA	4	Yes - CWA	NE
Specialist - Service 1 CWA	17	Yes - CWA	NE
Specialist - Service 2 CWA	16	Yes - CWA	NE
Specialist - Service 3 CWA	17	Yes - CWA	NE
Specialist - Service 4 CWA	17	Yes - CWA	NE
Specialist - Service 5 CWA	61	Yes - CWA	NE
Sr. Manager - Eng & Project Management	1		NE
Supervisor - Division Operations	8		NE
Supervisor - SGES Program	1		NE
Supervisor - Supply Chain	1		NE
Technician - Corrosion 4	4		NE
Technician - Measurement 1 CWA	3	Yes - CWA	NE
Technician - Measurement 2 CWA	2	Yes - CWA	NE
Technician - Measurement 4 CWA	1	Yes - CWA	NE

Title	# of positions	Union?	Residency?
Warehouse Operator I	2		NE
Welder 1 - CWA	2	Yes - CWA	NE
Welder 2 - CWA	3	Yes - CWA	NE
Welder 4 - CWA	4	Yes - CWA	NE

Total 216
Represented by a Union 158

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-17
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**

DATE RESPONSE DUE : **September 30, 2015**

DATE RESPONDED : **September 30, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Kyle White-BHUH**

SUBJECT : **# of SourceGas Employees in NE**

REQUEST NO. PA-34:

Please (1) confirm the number of SourceGas employees in Nebraska before the acquisition and (2) provide the estimated number of SourceGas employees who will be located in Nebraska after the acquisition transaction is fully implemented.

BHUH RESPONSE:

Please see the response to PA-30.

BHUH ATTACHMENTS: None

SG RESPONSE:

1. SourceGas currently has 206 employees in Nebraska and 10 open positions that are posted for potential job applicants to apply.

SG ATTACHMENTS: None

Response provided by:

Kyle White- BHUH
Marsha Williams-SG

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Joint Application Exhibit 5

Execution version

PURCHASE AND SALE AGREEMENT

among

ALINDA GAS DELAWARE LLC,

ALINDA INFRASTRUCTURE FUND I, L.P.

and

AIRCRAFT SERVICES CORPORATION

as Sellers,

and

BLACK HILLS UTILITY HOLDINGS, INC.

as Buyer

dated as of July 12, 2015

dividends, and/or make cash distributions to Sellers or their respective Affiliates at any time prior to Closing.

7.14 **Insurance.** Buyer shall be solely responsible for providing insurance to the Acquired Companies for any Claims made after Closing with respect to any Acquired Company or any Asset of the Acquired Companies regardless of when the event or occurrence relating to the Claim arose. If any Losses occur prior to Closing that relate to the Acquired Companies and a Claim associated with any such Losses can reasonably be made against one or more third parties, including under any insurance policies listed on Schedule 5.4 or any renewal thereof, Sellers shall (or if such Claim relates solely to the Alinda Acquired Companies, the Alinda Sellers shall), both before and after Closing, be entitled to control such Claim and, if any Seller so elects to control such Claim, Buyer shall cause the Project Companies to cooperate in connection therewith. If any insurance proceeds or other third party reimbursements are received by Buyer or the Acquired Companies following Closing in respect of any such Losses, Buyer shall, and shall cause the Acquired Companies to, as applicable, promptly pay to Sellers all such proceeds in such proportions as Seller shall direct in writing.

7.15 **Further Assurances.** Subject to the terms and conditions of this Agreement, at any time or from time to time after Closing, at any Party's request and without further consideration, the other Parties shall (and in the case of Buyer, Buyer shall, and shall cause the applicable Acquired Companies to) execute and deliver to such Party such other instruments of sale, transfer, conveyance, assignment and confirmation, provide such materials and information and take such other actions as such Party may reasonably request in order to consummate the transactions contemplated by this Agreement.

7.16 **Continuing Employees.** A "**Continuing Employee**" is each employee of the Project Companies on the Closing Date that is not subject to a collective bargaining agreement. Until the earlier of one year after the Closing Date or the date the Continuing Employee ceases to be employed by Buyer or an Affiliate of Buyer, Buyer shall, or shall cause an Affiliate of Buyer to, provide each Continuing Employee with: (i) base salary or hourly wage rate that is no less than the base salary or hourly wage rate provided by the Project Companies immediately prior to Closing; (ii) bonus and incentive opportunities that are no less than the bonus incentive opportunities, if any, provided by the Project Companies immediately prior to Closing; and (iii) employee benefits that are substantially the same, in the aggregate, as the employee benefits provided by the Project Companies Benefit Plans immediately prior to Closing. If Buyer or an Affiliate of Buyer chooses to terminate any Project Companies Benefit Plan and provide employee benefits pursuant to the plans of Buyer or an Affiliate of Buyer, each Continuing Employee shall receive credit under such plans for eligibility and vesting purposes and for any severance or paid time off benefit plans only for benefit determination purposes for his or her service with the Project Companies and any predecessor employer, provided, however, that such service shall not be recognized to the extent that (x) such recognition would result in a duplication of benefits for the same period of service or (y) such service was not recognized under the corresponding Project Companies Benefit Plan. In addition, and without limiting the generality of the foregoing, (1) each Continuing Employee shall be immediately eligible to participate, without any waiting time, in any and all of Buyer's or its Affiliates' employee benefit plans (each such plan, a "**Buyer Plan**") to the extent coverage under any such Buyer Plan replaces coverage under a comparable Project Companies Benefit Plan in which the Continuing

Employee participated immediately prior to the replacement of the Project Companies Benefit Plan by the Buyer Plan (each such plan, a “*New Plan*”), and (2) if a New Plan replaces a Project Companies Benefit Plan on a date other than the last day of the plan year for such Project Companies Benefit Plan, Buyer shall cause any eligible expenses incurred by any Continuing Employee and his or her covered dependents during the portion of the plan year ending on the date such participation in the New Plan begins, to be taken into account under such New Plan for purposes of satisfying all deductible, coinsurance and out-of-pocket requirements applicable to such Continuing Employee and his or her covered dependents for the plan year in which such participation begins as if such amounts had been paid in accordance with such New Plan.

This Section 7.16 shall be binding upon and inure solely to the benefit of each of the Parties, and nothing in this Section 7.16, express or implied, shall confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Section 7.16. The Parties acknowledge and agree that nothing in this Agreement shall (i) amend, or be deemed to amend, any Benefit Plan or any other employee benefit or compensation plan, program, policy, practice or arrangement or restrict any authority to amend or terminate any of the foregoing, (ii) provide any other Person with any right, benefit or remedy with regard to any Benefit Plan or other employee benefit or compensation plan, program, policy, practice, or otherwise, (iii) provide any other Person (including any Continuing Employee) with the right to continued employment with any Project Company, Buyer or any of their Affiliates, or (iv) restrict any Project Company, Buyer or any of their Affiliates from terminating any Person’s employment at any time (subject to the Project Company’s standard practices and policies regarding severance, if any, in effect as of the Closing).

7.17 Cooperation with Financing. From the date hereof until the earlier of the Closing Date and the date this Agreement is terminated in accordance with its terms, the Sellers shall use their commercially reasonable efforts to cooperate, and to cause the Acquired Companies and the Sellers’ and Acquired Companies’ respective officers, employees and advisors, including legal and accounting, to cooperate, with Buyer and its Affiliates in connection with the arrangement of the third-party financing contemplated by the Commitment Letter (such third-party financing, the “*Financing*”) to pay a portion of the Purchase Price, including (i) furnishing financial and other pertinent and customary information relating to the Acquired Companies and their businesses to Buyer, Buyer’s Affiliates and the Financing Sources, on a confidential basis, to the extent reasonably requested by Buyer or its Affiliates to assist in preparation of customary offering or information documents or marketing materials to be used for the completion or marketing of the Financing, including, without limitation, all financial statements and financial and other data and information of the type and form required by Regulation S-X under the Securities Act of 1933 and of the type and form customarily included in a registration statement on Form S-1 for a non-reporting company under the Securities Act of 1933 for a public offering of debt or equity securities, all other data that would be necessary for the underwriter of such offering to receive customary “comfort” (including “negative assurance” comfort) from the Acquired Companies’ independent accountants in connection with such offering, (ii) using commercially reasonable efforts to obtain from the Acquired Companies’ independent accountants comfort letters (and consents of such accountants for use of their reports in any materials relating to the Financing and in connection with any filings required to be made by Buyer pursuant to the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended) customarily provided with respect to financial information

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-20
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 24, 2015**
DATE RESPONDED : **September 24, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-36:

Please discuss any currently anticipated changes to SourceGas compensation and benefits for current and former employees for the first two years post-acquisition and explain how the changes will result in compensation and benefits to current and former employees that are, in the aggregate, at least as favorable as the compensation and benefits to such employees immediately prior to the consummation of the merger.

RESPONSE:

As agreed in section 7.16 of the Purchase and Sale Agreement, BHUH currently plans for SG compensation, incentive opportunities, and most, if not all, benefits to remain unchanged throughout 2016. The integration of all pay and benefits programs is planned to be completed by YE 2017. Once additional information is received from SG regarding their current plans we will be able to develop a more detailed integration plan and timeline.

ATTACHMENTS:

None

Response provided by:

Bob Myers

**BLACK HILLS UTILITY HOLDINGS & SOURCEGAS COMPANIES
JOINT ACQUISITION APPLICATION
APPLICATION NO. NG-0084
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: October 02, 2015
DATE RESPONSE DUE: October 16, 2015
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Marsha Williams
DATE RESPONDED: October 16, 2015
SUBJECT: PA 1-32; Copy of Union Contract

INFORMATION REQUEST PA 2-128:

Reference response to Information Request PA 1-32. Please provide a copy of the union contract covering Nebraska employees of SourceGas.

RESPONSE:

SourceGas has only one collective bargaining agreement in place for SourceGas employees. This agreement covers approximately 150 employees in Nebraska and approximately 92 employees in Colorado and Wyoming. See NE PA_2-128_Attachment - SourceGas Collective Bargaining Agreement.

ATTACHMENTS:

NE PA_2-128_Attachment - SourceGas Collective Bargaining Agreement

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White-BHUH**
SUBJECT :

REQUEST NO. PA-32:

Please identify and provide a copy of each written assurance provided to a labor organization with respect to the transaction in Nebraska, Arkansas, Colorado, and Wyoming.

BHUH RESPONSE:

BHUH has not provided any written assurance to any labor organization with respect to the transaction in Nebraska, Arkansas, Colorado, or Wyoming. Pursuant to section 7.16 in the Purchase and Sale Agreement between SourceGas Holdings and BHUH (Application Exhibit 5), BHUH has agreed to maintain continuing SG employee compensation and benefits at the same or better levels for 12 months following the close of the transaction.

BHUH ATTACHMENTS: None

SG RESPONSE:

No written assurances have been provided by SourceGas to a labor organization.

SG ATTACHMENTS: None

Response provided by:

Kyle White-BHUH
Marsha Williams-SG

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-23
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
SECOND SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **October 2, 2015**
DATE RESPONSE DUE : **October 16, 2015**
DATE RESPONDED : **October 13, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Linn Evans**

REQUEST NO. PA-129:

Reference response to Information Request PA 1-32. Does the Purchase and Sales Agreement provide for the transfer of the CWA union contract(s) covering Nebraska employees to BHUH upon closing?

RESPONSE: Yes.

ATTACHMENTS: None.

Response provided by:

Legal-BHUH

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Linn Evans-BHUH**
SUBJECT : **OSHA Incident Rate**

REQUEST NO. PA-39:

Please provide the OSHA incident rate for the last 5 calendar years for Black Hills Nebraska and SourceGas Nebraska (Company or Companies).

JOINT RESPONSE:

Please see the table below for the Nebraska specific incident rates for the past 5 calendar years and YTD 2015.

Year	Nebraska-SourceGas OSHA Rate	BH Nebraska - OSHA Rate
2010	1.21	6.2
2011	3.76	4.6
2012	5.97	3.2
2013	5.28	2.5
2014	4.11	3.6
2015	5.58	.8

JOINT ATTACHMENTS: None

Response provided by:

Mike Theis-BHUH

Jason Weekley-SG

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Linn Evans-BHUH**
SUBJECT : **Average Response Time**

REQUEST NO. PA-40:

What is the average response time for both Companies to gas leaks and odor call outs from customers over the last 5 years?

BHUH RESPONSE:

The average response time for Black Hills /Nebraska Gas Utility Company, LLC to gas leaks and odor call outs from customers over the last 5 years is as follows:

2010 - 98.8% within 60 min (average not available)
2011 - 99.5% within 60 min (average not available)
2012 - 96.5% within 60 min (average 34 min)
2013 - 98.8% within 60 min (average 29 min)
2014 - 99.1% within 60 min (average 27 min)
2015 (YTD through 8/31) - 97.7% within 60 min (average 28 min)

BHUH ATTACHMENTS: None

SG RESPONSE:

	State	Total Response Minutes	Total # Calls	Average Response/Call
2010	Nebraska	83761	3126	27
2011	Nebraska	74467	2975	25
2012	Nebraska	79280	3146	25
2013	Nebraska	93213	3387	28
2014	Nebraska	82416	3069	27
Totals	Nebraska	413137	15703	26

SG ATTACHMENTS: None

**RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE**

Response provided by:

Jeff Sylvester-BHUUH

Jason Weekley-SG

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-26
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**

DATE RESPONSE DUE : **September 18, 2015**

DATE RESPONDED : **September 18, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Linn Evans-BHUH**

SUBJECT : **Safety and Reliability Goals**

REQUEST NO. PA-43:

Please identify, compare, and contrast, the current safety and reliability goals for both Companies and explain how those goals will be changed as a result of the merger.

BHUH RESPONSE:

Black Hills /Nebraska Gas Utility Company ("Black Hills Energy - Nebraska") tracks the following safety goals: (1) line hits per 1,000 locates; (2) open leaks; and (3) number of on-the-job injuries (TCIR). With respect to reliability goals, BHE Nebraska tracks the number of preventable outages.

Black Hills Energy - Nebraska and SG maintain consistent safety and reliability goals. Both entities are focused on achieving industry leading performance in the area of damage prevention, leak management and limiting on-the-job injuries.

As the preparations that are necessary to integrate SG with Black Hills are just beginning, changes to safety and reliability goals have not been identified at this point. Please also see the response to Request No. PA-49.

BHUH ATTACHMENTS: None

SG RESPONSE:

SourceGas' goal is to continuously improve on all fronts, including safety and reliability of service. We do that by striving for 10% improvement over the prior year's safety numbers and by increasing reliability through pipeline integrity and SSIR programs. We do not anticipate any changes in these goals.

SG ATTACHMENTS: None

Response provided by:

Jeff Sylvester-BHUH
Jason Weekley-SG

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
SECOND SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **October 2, 2015**
DATE RESPONSE DUE : **October 16, 2015**
DATE RESPONDED : **October 15, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Linn Evans-BHUH**

REQUEST NO. PA-122:

Follow up to response to Information Request PA 1-43

- a. This response appears incomplete. Please explain how a 10% improvement in safety and reliability by SourceGas compares and contrasts to the BHUH response.

JOINT BHUH AND SG RESPONSE: As noted in PA 1-43, BHUH has not yet completed its review of the differences in safety and reliability goals between SourceGas and Black Hills Energy - Nebraska. Thus, a full comparison of those goals is premature. However, BHUH does not believe that integrating the safety and reliability goals of BHUH and SourceGas will adversely affect customers in Nebraska.

As noted by the response to PA - 43, BHUH tracks the following safety related areas: (1) line hits per 1,000 locates; (2) open leaks; and (3) number of on-the-job injuries (TCIR). With respect to reliability goals, BHE Nebraska tracks the number of preventable outages.

SourceGas did not articulate the specific categories that it tracks, but noted that it strives to achieve a 10 percent improvement over the prior year's safety numbers. The specific areas of safety tracking are comparable to BHUH. For example, SourceGas also tracks (1) line hits, (2) open leaks, and (3) TCIR.

A full comparison and revision, where appropriate or necessary, of safety and reliability will occur after the transaction is closed.

ATTACHMENTS: None.

Response provided by:

Jeff Sylvester - BHUH
Legal-SG

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-49:

Describe the best practices that will be shared as a result of the merger. Are any of those practices predicted to increase system reliability without increasing expenditures?

RESPONSE:

As the preparations that are necessary to integrate SG with Black Hills are just beginning, no best practices have been identified at this point. Black Hills expects that a review of the business practices of SG and Black Hills will result in improvement of system reliability. For example, Black Hills plans to perform best practice assessments and evaluate opportunities for consolidation in the following areas to identify improvement opportunities: (1) operations and maintenance standards and manuals, safety programs, technical training methods, and integrity management planning; (2) the Click Mobile dispatching systems that both companies have implemented in recent years; and (3) GIS mapping solutions, combined company center line location projects, and digital as-builts for new construction. However, Black Hills is unable to ascertain at this point whether there will be costs associated with any improvements.

ATTACHMENTS: None

Response provided by:

Kyle White

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**

DATE RESPONSE DUE : **September 24, 2015**

DATE RESPONDED : **September 24, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Linn Evans-BHUH**

SUBJECT : **Emergency Response Organization Philosophies/Processes**

REQUEST NO. PA-51:

Compare and contrast the emergency response organization philosophies and process of Black Hills and SourceGas and note any differences that will create operating issues or opportunities post-merger.

BHUH RESPONSE:

At BHUH, safety is the top organizational priority. In fact, “Safety” is one of the core “Values” for Black Hills.

Black Hills Energy - Nebraska is organized into four operating regions. Each operating region is divided into multiple emergency call-out areas based on the number of available field technicians in the area, number of customers served, and the required time to respond to emergencies within the call-out area. The field technicians are notified of emergencies by the Field Resource Center (FRC or dispatch center) and the FRC will provide field support by notifying additional personnel in the area if the on-call technician needs assistance. The technicians are also supported by a daily on-call Duty Supervisor that will provide overall guidance and direction in an escalated situation.

The integration team has only begun its detailed review of the SourceGas operating processes and systems, and will not complete its full evaluation of SourceGas’ emergency response philosophies and processes until after the close of the transaction. However, BHUH does not currently anticipate any significant difficulties in integrating the SourceGas emergency response philosophies and/or processes with those of BHUH. As safety is a core value or top priority of both BHUH and SourceGas, emergency response philosophies and processes will remain a primary focus for Both Black Hills Energy - Nebraska and Black Hills Gas Distribution (i.e., formerly SourceGas Distribution) in Nebraska after the close of the transaction.

BHUH ATTACHMENTS: None

**RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE**

SG RESPONSE:

At SourceGas, safety is the top organizational priority. SourceGas has five operating divisions within Nebraska. An emergency response plan is maintained and followed in each division. The operating divisions are divided into callout zones. When an emergency call is received after hours, the service specialist on standby for that zone is dispatched to respond. Depending on the magnitude of the emergency, the ERL (Emergency Response Line) and ERL+ system could be deployed to mobilize additional resources.

SG ATTACHMENTS: None

Response provided by:

Jeff Sylvester- BHUH
Jason Weekley-SG

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**

DATE RESPONSE DUE : **September 18, 2015**

DATE RESPONDED : **September 18, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Linn Evans-BHUH**

SUBJECT : **# of Customer Complaints to NE PSC**

REQUEST NO. PA-42:

Please provide the number of customer complaints to the Nebraska PSC for both Companies for the past 5 years. Categorize them by billing and operating complaints if possible.

BHUH RESPONSE:

The Director of Natural Gas for the Nebraska Public Service Commission reports the number of consumer inquiries and complaints made to the Commission at GRIST meetings. A copy of the Commission's minutes can be located at the following web address:

http://www.psc.nebraska.gov/admin/minutes_2015.html

Any complaints received by the Commission related to rate proceedings were made part of the record in that proceeding.

As noted, the Natural Gas Director's report to the Commission includes the aggregate number of consumer inquiries and complaints and does not separate those requests by category. Furthermore, it should be noted that over the past five years none of the inquiries and/or complaints received by either Black Hills Energy or SourceGas Distribution have resulted in a full evidentiary hearing before the Commission.

See Attachment PA-42 - Commission Inquiries and Complaints

BHUH ATTACHMENTS:

Attachment PA-42 - Commission Inquiries and Complaints

SG RESPONSE:

Between January 1, 2011 and September 8, 2015, SourceGas Distribution LLC (the "Company") received 82 billing related complaints and 156 operations complaints from the Nebraska PSC. In addition, the Company received 30 complaints in 2011 and 14 complaints in 2012 related to the Company's then Rate Case as summarized by year in the table below.

**RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE**

Year	Billing	Operations	Rate Case
2011	24	43	30
2012	15	34	14
2013	13	30	
2014	15	30	
2015	15	19	
Totals	82	156	44

SG ATTACHMENTS: None

Response provided by:

Misty Wilson-BHUH
Steve Bandy-SG

PUBLIC UTILITY INQUIRIES OR CONTACTS YEAR TO DATE - 2015						
TYPE OF INQUIRY OR CONTACT	NE Gas					
	2015	2014	2013	2012	2011	2010
BILLING						
Billing Errors / Issues	3	1	3	4	8	12
Meter Reading /Estimates / No Reads	1	2	1	2	0	0
Budget	0	2	0	0	0	4
High Bills / Utility Cost / Rate Increases	4	0	0	9	17	9
Inaccurate Metering / Pressure Factor	0	0	0	0	0	2
Miscellaneous	0	0	0	0	1	1
UTILITY SERVICE						
Start Service / Stop Service	0	3	5	6	0	2
New Construction	0	1	0	0	0	0
Equipment (Meter)	1	0	0	0	0	2
Gas Service / Leaks	0	1	1	1	0	0
Electric Service / Outages	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	1
CREDIT/COLLECTIONS						
Collections	3	12	3	8	6	6
Payment Arrangements / CWR	0	0	0	0	0	1
Deposits	0	0	0	0	0	0
Payments	0	1	1	0	0	2
Energy Assistance	0	0	0	1	0	0
Penalty Assessments	0	0	0	0	0	4
Miscellaneous	0	0	0	0	0	0
OTHER						
CSC	0	0	0	0	4	0
CAS / Cust Acct Services	1	0	0	1	0	0
Farm Taps	2	0	0	0	0	1
Landlord	1	2	3	1	0	5
Property Damage / Landscaping	0	0	0	1	0	3
Miscellaneous - Other	0	1	0	0	1	11
APPLIANCE REPAIR						
On Demand / Service Guard	0	0	0	0	0	1
TOTAL	16	26	17	34	37	67

Formal Inquiries or Contacts	0	0	0	0	0	0
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BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Linn Evans**
SUBJECT :

REQUEST NO. PA-50:

Provide a list of all focus groups conducted, customer or community surveys conducted, community or public meetings held or attended, or any other meetings or discussions Joint Applicants have had with customers regarding the reliability expectations.

BHUH RESPONSE:

BHUH Response: BHUH and SG have not had any meetings or discussions with customers as Joint Applicants regarding reliability expectations. The following surveys are performed to generate Black Hills /Nebraska Gas Utility Company ("Black Hills Energy - Nebraska") customer feedback regarding reliability expectations.

- JD Power Survey. Each quarter, JD Power surveys Black Hills Energy - Nebraska customers and asks questions related to reliability.
- Community Leader Survey. Black Hills Energy - Nebraska conducts a periodic survey of the leaders in the communities it serves in Nebraska. The last survey of this nature was performed in 2013.

BHUH ATTACHMENTS: None

SOURCEGAS RESPONSE:

There have been no customer or community meetings, surveys or discussions held by SourceGas regarding customers' reliability expectations.

SG ATTACHMENTS: None

Response provided by:

Jeff Sylvester-BHUH

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-32
Page 1 of 2

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**

DATE RESPONSE DUE : **September 24, 2015**

DATE RESPONDED : **September 24, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Linn Evans-BHUH**

SUBJECT : **Aging Infrastructure**

REQUEST NO. PA-55:

Please describe the philosophy and plans for SourceGas to replace aging infrastructure and will that plan or those plans remain in place post-merger. Please explain any differences that those plans would take on from SourceGas' existing plans? How do any of SourceGas' existing plans differ from Black Hills's philosophy and plans?

BHUH RESPONSE:

See Response to PA-51 regarding Safety and Emergency Responses.

The same philosophy and focus surrounding safety provided in BHUH's response to PA-51 and emergency response also applies replacing aging infrastructure in Nebraska.

BHUH invests significantly in the reliability and safety of all pipeline systems for the benefit of the general public, Black Hills Energy- Nebraska customers, and Black Hills Energy - Nebraska employees. Aging infrastructure is evaluated on potential risk based on the company's capital allocation prioritization model. Our current focus is on bare steel replacement and replacement of obsolete equipment on our above ground facilities. For example, evidence of this investment can be seen by a review of eligible pipeline replacement projects that have been included in Black Hills Energy - Nebraska Pipeline Replacement Charge filings in Docket Nos. NG-0074 and NG-0074.1.

Black Hills is currently in the process of evaluating the integrity management plans and understanding the projects and methods put forth by SourceGas. Thus, specific commitments cannot be made at this time. That said, due diligence performed on SourceGas to date has not indicated significant differences in integrity management policy or administration.

BHUH ATTACHMENTS: None

**RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE**

SG RESPONSE:

SourceGas continually strives to improve the reliability and safety of all pipeline systems for the benefit of the general public, SourceGas customers, and SourceGas employees. The primary “aging infrastructure” programs implemented in Nebraska are top of ground (TOG) pipe replacement, bare steel distribution main replacement, ineffectively coated transmission pipeline replacement, and town border station replacement. Qualifying projects have been included in the Company’s SSIR filings for 2014 and 2015. A polyvinyl chloride (PVC) pipe replacement program is expected to be implemented in 2016.

SG ATTACHMENTS: None

Response provided by:

Jeff Sylvester-BHUH
Jason Weekley-SG

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BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-34
Page 1 of 2

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**

DATE RESPONSE DUE : **September 28, 2015**

DATE RESPONDED : **September 28, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Kyle White and SG Legal**

SUBJECT :

REQUEST NO. PA-19:

- a. Please identify any acquisition premium embedded in the purchase price that Black Hills has agreed to pay to acquire SourceGas.
- b. What portion of the acquisition premium is related to SourceGas' Nebraska operations?
- c. Please explain whether Black Hills anticipates recovering some or all of the acquisition premium through its share of retained cost savings.
- d. Please explain how SourceGas anticipates refunding current ratepayers for the premium paid by Black Hills.

BHUH RESPONSE:

BHUH objects to this request to the extent that it calls for information that is not relevant nor likely to lead to relevant information. BHUH further objects to the extent that this request requires BHUH to prepare or create reports, analysis or studies that do not exist.

Without waiving or limiting its objection, BHUH responds as follows:

- a. The total dollar amount of acquisition premium is subject to change based upon the finalization of both (i) the purchase price at closing and (ii) the net book value of assets at closing. The purchase price is to be adjusted under the Purchase and Sale Agreement (PSA) purchase price adjustment mechanism for items such as capital expenditure reimbursement and working capital adjustments. The net book value of the assets of SourceGas at the time of close is also subject to change between now and closing based on movements in balance sheet accounts in the ordinary course of business. Nevertheless, a preliminary estimate of the range of acquisition premium can be made at this time. Total dollar amount of acquisition premium is estimated to be in the range of \$925-950 million.
- b. Of the total acquisition premium, the preliminary estimation is that the Nebraska operations will be allocated approximately 20-25%.

**RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE**

c. No. However, the Company's expectation of retained cost savings supported the purchase price offered.

BHUH reserves the right to seek recovery of this acquisition premium, or a portion thereof, in future rate filing(s), and appreciates and acknowledges that it will need to accomplish measurable qualitative and/or quantitative customer benefits associated with its acquisition of SourceGas Distribution to justify such recovery.

ATTACHMENTS: None

SG RESPONSE:

d. The Joint Applicant SourceGas Holdings LLC objects to PA 1-19, subsection d. Black Hills is not seeking approval of an acquisition premium for ratemaking purposes in this proceeding. The SourceGas Companies are not being paid any acquisition premium, and there is no authority under the State Natural Gas Regulation Act to require the SourceGas Companies to refund ratepayers the "premium paid by Black Hills" to the SourceGas owners. Therefore, the request is not relevant or likely to lead to relevant evidence.

ATTACHMENTS: None

Response provided by:

Kyle White - BHUH
Legal - SG

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
SECOND SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **October 2, 2015**

DATE RESPONSE DUE : **October 16, 2015**

DATE RESPONDED : **October 13, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Kyle White**

REQUEST NO. PA-118:

Can you assure the Nebraska Public Service Commission that, if the Joint Application is approved, it will not directly or indirectly result in an increase in rates to jurisdictional customers of BHUH and its affiliates in Nebraska?

RESPONSE: Objection. BHUH objects to this requests to the extent that it calls for information that is not relevant nor likely to lead to relevant information. BHUH objects to this request to the extent that it calls for speculation. BHUH further objects to this request to the extent that it seeks privileged Attorney Client Communications, Attorney Work Product, or legal opinion.

Without waiving or limiting its objection, BHUH responds as follows:

Joint Applicants have asserted within the application that existing rates, terms, and conditions of service to the customers of Black Hills Energy- Nebraska will be maintained. All existing tariffs will remain the same immediately after the transaction.

BHUH has no immediate plans for a general rate increase due to this transaction. However, BHUH reserves all of its rights under the State Natural Gas Regulation Act whether a future rate filing application is due to this transaction or not.

ATTACHMENTS: None.

Response provided by:

Kyle White
Legal-BHUH

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BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**

DATE RESPONSE DUE : **October 2, 2015**

DATE RESPONDED : **October 2, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Rich Kinzley**

SUBJECT :

REQUEST NO. PA-21:

Reference the Direct Testimony of Richard Kinzley, page 17, line 23 through page 18 line 4: Testimony states that BHUH will track and manage both transaction and transition costs, but does not seek authorization to recover any of those costs in this proceeding. BHUH will not seek approval for recovery of transaction costs in any future proceeding. BHUH does, however, reserve the right to seek recovery of transition costs in conjunction with its post-acquisition rate filings: Show in detail how all Transaction and Transition Costs anticipated to result from the proposed transaction will be recorded on the books of each entity. Include anticipated journal entries, journal entry descriptions, and amounts. Please identify and provide each existing document that addresses this matter in whole or in part.

RESPONSE:

Integration plans are in the process of being established and refined, thus the full magnitude of transition costs is not precisely known or budgeted at this time. A host of factors bear on the projection, namely; the timing in which the transaction closes and the level of resources (both internal and external) it will take to fully effectuate the transition. For purposes of evaluating the business during due diligence, it was assumed transition costs could potentially reach between \$85 and \$90 million (both capital and o&m) throughout the multi-year transition period post-close depending upon the factors listed above. A breakdown of the types of transition costs incurred or to be incurred include but are not limited to the following:

- Internal labor and third party consultant costs (both time and expenses) incurred in performing integration planning and integration execution work on the subject transaction
- IT system conversion costs
- Costs incurred relative to changing the business name to Black Hills-based names
- Severance and/or early separation payments, retention payments

Transaction costs are also anticipated to result from the proposed transactions. Although not an exhaustive list, the following types of costs have or will be incurred that fall within the definition of transaction costs:

- Investment banking fees

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-37
Page 2 of 4

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

- Internal labor and third party consultant costs (both time and expenses) incurred in performing due diligence on the subject transaction including financial and tax consulting work
- Legal fees for negotiation and closing of the Purchase and Sale Agreement ("PSA")
- Internal labor and third party legal and consultant costs (both time and expenses) incurred in performing legal and regulatory work on gaining regulatory approval for the subject transaction

Transaction costs are generally incurred prior to the signing of the PSA except for those costs necessary to finalize the documentation of the purchase and sale and close the transaction. Due diligence on the subject transaction began in May 2015, thus, transaction costs may have been incurred beginning on or around that date. Transaction costs post-signing of the PSA may be incurred up through the date the transaction closes. Although the magnitude is not completely known at this time, for purposes of evaluating the business during due diligence, it was assumed transaction costs could potentially reach between \$25 and \$35 million

Please note, BHUH has committed to not seek recovery of transaction costs in any future rate proceeding.

The accounting entries depend on the regulatory treatment of such costs. Some potential example accounting entries follow:

All non-capital transaction and transition costs will be expensed as incurred to the appropriate FERC O&M accounts on the books of Black Hills Corporation, the parent holding company. An entry for some combined expenditures may be:

Dr. Salaries Expense
Dr. Outside Services Expense
Dr. Office Expenses
 Cr. Cash

If a regulatory order is received (as was requested as part of the application) to establish a regulatory asset for transition costs after expenses are incurred the following reclassification entry would be made and pushed down to the books of the utilities in a manner either mandated by the accounting order or that otherwise reasonably assigns the costs to the entities receiving the benefit:

Dr. Regulatory Asset
 Cr. Salaries
 Cr. Outside Services
 Cr. Office Expenses

It is also possible a transition cost could be capital in nature. If a transition cost is appropriate to capitalize, the original entry would be as follows on the books of the utilities in a manner either mandated by the accounting order or that otherwise reasonably assigns the asset cost to the entities receiving the benefit of the asset:

**RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE**

Dr. Plant in Service or other capital asset
Cr. Cash

For purposes of evaluating the business, Black Hills assumed the amounts shown in Attachment NE PA-21 T&T Cost Estimates would be incurred for transaction and transition costs, respectively.

ATTACHMENTS:

Attachment NE PA-21 T&T Cost Estimates

Response provided by:

Justin Klapperich

Attachment NE PA-21 T&T Cost Estimates

<u>Transaction Costs</u>	2016	2017	2018	2019	2020	Total
Bankers & Legal Transaction Costs	16.7	0.0	0.0	0.0	0.0	16.7
Regulatory Costs	3.5	0.0	0.0	0.0	0.0	3.5
Directors and Officers Insurance	1.8	0.0	0.0	0.0	0.0	1.8
Internal/External Communications	3.0	0.0	0.0	0.0	0.0	3.0
	25.0	0.0	0.0	0.0	0.0	25.0
					Range	25-35
<u>Transition Costs</u>						
Labor-Related Costs (y)	8.9	3.5	0.0	0.0	0.0	12.4
System Integration Costs	26.0	25.7	6.0	2.0	1.0	60.7
Branding and Other Transition Costs	7.0	0.0	0.0	0.0	0.0	7.0
Facility Integration Costs	3.0	0.5	0.5	0.5	0.5	5.0
	44.9	29.7	6.5	2.5	1.5	85.1
					Range	85-90

(y) Change in Control payments; Retention; Severance and Relocation Costs

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-38
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-26:

Confirm or deny: Joint Applicants will not seek to recover costs associated with shareholder litigation through retail rates.

RESPONSE:

There may be circumstances in which shareholder litigation costs may be appropriate to request recovery for through retail rates. Black Hills does not currently have any shareholder litigation and is therefore unable to definitely respond to this request.

ATTACHMENTS: None

Response provided by:

Kyle White

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BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Rich Kinzley**
SUBJECT :

REQUEST NO. PA-12:

Black Hills' stock price has declined since the announcement of its planned acquisition of SourceGas on July 12, 2015. Please explain the decline.

RESPONSE:

The decline in Black Hills' stock price since the SourceGas acquisition announcement can generally be attributed to macro market factors and investor uncertainty regarding the proposed acquisition. Utilities, including Black Hills, have been pressured all year by expectations of rising interest rates, prompted by comments by the Federal Reserve. Utilities often trade like bond proxies, with stock prices moving in the opposite direction of interest rates. The utility sector has been the worst performing sector in 2015, with traders driving down stock prices in anticipation of rising interest rates. This pressure on utility stocks has been present throughout 2015, but has been particularly notable since the middle of the year, coinciding with the announcement of the SourceGas deal by Black Hills. Further, Black Hills' stock price has been negatively impacted by the declining and/or continued low crude oil and natural gas prices. Low commodity prices have reduced revenues for the company's oil and gas business, resulting in lower earnings for that segment. Black Hills' stock price has reflected this segment's reduced earnings. In addition, Black Hills' stock price has been negatively impacted by investor uncertainty regarding the overall transaction. In particular, investors want clarity about the terms of the financing required to fund the transaction. Investors are uncertain about the exact amount of debt and equity needed and at what prices the financing will be issued. Investors are also concerned about the uncertainty regarding the logistics and timing of integration, the regulatory approval process and the impacts to Black Hills' credit rating. All of these issues create uncertainty, which generally pressures stock prices.

ATTACHMENTS: None

Response provided by:

Jerome Nichols
Rich Kinzley

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**

DATE RESPONSE DUE : **September 18, 2015**

DATE RESPONDED : **September 18, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Rich Kinzley**

SUBJECT :

REQUEST NO. PA-7:

For 2008 to the present, please list the credit ratings for Black Hills and its regulated utility companies and other unregulated subsidiaries by the three major credit rating agencies. For each time a credit rating was changed either up or down by any of the three rating agencies, please provide a copy of the related credit rating report.

RESPONSE:

The table below outlines the credit ratings for Black Hills and BHP for each year ending December 31 beginning in 2008 through the current period. Black Hills only receives ratings for these two entities.

	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	6/30/15
BHC	Rating							
Moody's	Baa3	Baa3	Baa3	Baa3	Baa3	Baa2	Baa1	Baa1
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB	BBB	BBB
Fitch	BBB	BBB	BBB	BBB-	BBB-	BBB	BBB+	BBB+
BHP								
Moody's	Baa1	A3	A3	A3	A3	A1	A1	A1
S&P	BBB	BBB	BBB+	BBB+	BBB+	A-	A-	A-
Fitch	A-	A-	A-	A-	A-	A-	A	A

Additionally, the tables below outline each time a credit rating was changed for Black Hills and BHP, respectively, during the same time period for each of the three major rating agencies. Attached are the reports that support these changes.

**RESPONSE OF JOINT APPLICANTS TO
 FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE**

Black Hills Corporation Credit Rating Changes

Date	Moody's	S&P	Fitch
as of 1/1/08	Baa3	BBB-	n/a
7/15/08			BBB
5/17/11			BBB-
5/10/13			BBB
7/24/13		BBB	
9/25/13	Baa2		
1/30/14	Baa1		
6/13/14			BBB+
As of 9/9/15	Baa1	BBB	BBB+

Black Hills Power Credit Ratings Changes

Date	Moody's	S&P	Fitch
as of 1/1/08	Baa2	BBB-	n/a
7/15/08			BBB
7/24/13		BBB	
9/25/13	Baa1		
1/30/14	A3		
6/13/14			BBB+
As of 9/9/15	A3	BBB	BBB+

ATTACHMENTS:

- Attachment PA-7A-2009-08-03 Moody's upgrades BHP FMBs to A3
- Attachment PA-7B-2011-05-17 - Fitch downgrades BHC to BBB-
- Attachment PA-7C-2013-05-10 - Fitch upgrades BKH to BBB
- Attachment PA-7D-2013-07-24 - S&P upgrades BKH, BHP to BBB
- Attachment PA-7E-2013-09-25 - Moody's upgrades BKH to Baa2, BHP FMBs to A1
- Attachment PA-7F-2014-01-30 - Moody's upgrades BKH to Baa1, BHP FMBs to A1
- Attachment PA-7G-2014-06-13 - Fitch upgrades BKH to BBB+, BHP FMBs to A
- Attachment PA-7H-2005-06-02 - Moody's rates BHC at Baa3, BHP at Baa1
- Attachment PA-7I-2008-08-26 - Fitch rates BKH at BBB, BHP FMBs at A-
- Attachment PA-7J-2007-09-18 - S&P rates BKH, BHP at BBB-

Response provided by:

Kim Nooney

**BLACK HILLS UTILITY HOLDINGS & SOURCEGAS COMPANIES
JOINT ACQUISITION APPLICATION
APPLICATION NO. NG-0084
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: September 02, 2015
DATE RESPONSE DUE: September 18, 2015
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Andy Walls
DATE RESPONDED: September 18, 2015
SUBJECT: SourceGas Credit Ratings

INFORMATION REQUEST PA 1-08:

For 2008 to the present, please list the credit ratings for SourceGas and its regulated utility companies and other unregulated subsidiaries by the three major credit rating agencies. For each time a credit rating was changed either up or down by any of the three rating agencies, please provide a copy of the related credit rating report.

RESPONSE:

Attached please find a table summarizing the SourceGas rating history from 2008-present for Standard & Poors, Moody's, and Fitch Ratings as well as credit rating reports for any rating change.

ATTACHMENTS:

NE PA_1-08 Rating Agency summary.xlsx
NE PA_1-08 2008 Moodys June Downgrade.pdf
NE PA_1-08 2011 Moodys Dec Rating Action.pdf
NE PA_1-08 2014 Moody's Upgrade SG.pdf

**SourceGas LLC
Credit Ratings
2008-2015**

	S&P	Moody's	Fitch*
2008	BBB-	Ba1	n/a
2009	BBB-	Ba1	n/a
2010	BBB-	Ba1	n/a
2011	BBB-	Baa3	BBB-
2012	BBB-	Baa3	BBB-
2013	BBB-	Baa3	BBB-
2014	BBB-	Baa2	BBB-
2015	BBB-	Baa2	BBB-

*Fitch initial rating September 2011

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-43
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FOURTH SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **October 7, 2015**
DATE RESPONSE DUE : **October 21, 2015**
DATE RESPONDED : **October 15, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Rich Kinzley**

REQUEST NO. PA-136:

Reference response to Information Request PA 1-7: Please update the credit ratings by the three major credit rating agencies for Black Hills. The information provided in the September 18, 2015, response only included ratings through June 2015.

BHUH RESPONSE:

Information Request PA1-7 provided several attachments that included credit rating reports for each time a credit rating was changed either up or down by any of the three rating agencies. That request did not include the most current reports as they did not support a change in the rating either up or down. Information Request PA1-9 did request the most recent ratings reports and those reports were provided in the following attachments:

- Attachment PA-9A Moody's_BHC Credit Opinion 10.1.14
- Attachment PA-9B S&P BKH Credit Opinion Summary 1.22.13
- Attachment PA-9C Fitch upgrades BKH to BBB+ stable 6.13.14
- Attachment PA-9D Fitch Ratings Update_SourceGas Announcement_2015.7.13
- Attachment PA-9EMoody's Rating Update_SourceGas Announcement_2015.7.14
- Attachment PA-9FS&P Ratings Update_SourceGas Announcement_2015.7.13

Since the issuance of the reports in Information Requests PA1-9 Black Hills has not received further reports from any of the credit rating agencies.

ATTACHMENTS: None.

Response provided by:

Kimberly Nooney

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-44
Page 1 of 8

RESPONSE OF JOINT APPLICANTS TO
FOURTH SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **October 7, 2015**
DATE RESPONSE DUE : **October 21, 2015**
DATE RESPONDED : **October 19, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Rich Kinzley**

REQUEST NO. PA-137:

Reference response to Information Request PA 1-9: Please update this continuing request for the credit rating reports that have reviewed BlackHills, SourceGas, and their respective utilities.

JOINT RESPONSE:

The Joint Applicants will provide newly issued credit rating reports when available.
Moody's Investor Service issued the attached SourceGas credit report on September 24, 2015.

ATTACHMENTS:

PA-4-136_Attachment - SourceGas

Response provided by:

Kimberly Nooney-BHUH
Andy Walls-SG

MOODY'S

INVESTORS SERVICE

Credit Opinion: SourceGas LLC

Global Credit Research - 24 Sep 2015

Lakewood, Colorado, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa2

Contacts

Analyst	Phone
Jairo Chung/New York City	212.553.5123
William L. Hess/New York City	212.553.3837

Opinion

Rating Drivers

- Mixed record of regulatory supportiveness but improving in some jurisdictions
- Utility growth driven by infrastructure investment and customer additions
- Credit metrics adequate for rating but constrained by high dividends and large parent debt
- Pending acquisition by Black Hills brings some uncertainty to credit profile

Corporate Profile

SourceGas LLC (SourceGas, Baa2 senior unsecured, stable), headquartered in Golden, Colorado, is a holding company with four natural gas local distribution companies (LDC), a Colorado intrastate natural gas pipeline through Rocky Mountain Natural Gas, LLC (RMNG) and other natural gas related miscellaneous operations. It serves approximately 424,000 customers in four states: Arkansas, Colorado, Nebraska and Wyoming. Also, RMNG operates a processing plant co-owned with Public Service Company of Colorado, and owns and operates a gas storage facility. SourceGas is an intermediate holding company wholly owned by SourceGas Holdings LLC (Holdings, not rated).

SourceGas' operations are subject to the regulatory overview of the Arkansas Public Service Commission (APSC), the Nebraska Public Service Commission (NPSC) and the Wyoming Public Service Commission (WPSC) as well as the Colorado Public Utilities Commission (CPUC).

On July 12, 2015, Black Hills Corp. (Black Hills, Baa1, negative) announced its plan to acquire Holdings and its subsidiaries. The transaction value is \$1.89 billion, which we expect Black Hills to fund with a combination of debt and equity. Regulatory approvals are needed from all four commissions that oversee SourceGas' operations. The transaction is expected to close during first half 2016.

SUMMARY RATING RATIONALE

SourceGas' Baa2 senior unsecured rating is supported by the LDC's low business risk profile, the multi-jurisdictional regulatory structure providing a degree of regulatory diversity, and the company's focus on pursuing organic growth initiatives within its regulated operations. The rating is also underpinned by the company's key credit metrics and our expectation that SourceGas' credit metrics will continue to be commensurate with its current rating. Lastly, we take into consideration the substantial amount of parent company debt, accounting for

approximately 29% of consolidated debt as of latest twelve months (LTM) June 30, 2015. SourceGas Holdings' unregulated operations accounted for approximately 3% of consolidated core gross margin in 2014.

DETAILED RATING CONSIDERATIONS

- Mixed record of regulatory supportiveness but improving in some jurisdictions

SourceGas has operations under four different state regulatory environments. While this diversity is a credit positive, the supportiveness of these regulatory environments has been mixed. We view the Arkansas and Nebraska regulatory frameworks to be slightly less constructive than Colorado and Wyoming. Arkansas has been a challenging environment for utilities with typical settlements well below the requested rate increases although we believe the regulatory environment in Arkansas has been improving. In the last rate case, which concluded in July 2014, the APSC approved a settlement agreement which resulted in a \$13.8 million annual revenue increase and a 9.3% allowed return on equity (ROE). SourceGas Arkansas' new base rates allow the company recovery of expenditures that were previously only recoverable under a separate charge.

In addition, the new settlement authorized two new riders: the Main Replacement Program Rider (MRP) and the At-Risk Meter Relocation Program Rider (ARMRP), a credit positive. Both riders will enhance future cash flow predictability and transparency, and allow for the recovery of infrastructure investments outside of a rate case. The MRP rider is important given that SourceGas Arkansas is focusing on growing its rate base through infrastructure investment. The MRP rider will allow for timely recovery of approximately \$17 million of costs associated with replacing bare steel mains, coated steel mains that are not protected, and other mains the company has deemed to warrant accelerated replacement. The ARMRP rider allows for timely recovery of approximately \$2.6 million of costs associated with relocating meters susceptible to being struck by motor vehicles. Additionally, SourceGas benefits from a weather normalization clause (WNA) in Arkansas as well as a billing determinant adjuster rider that offsets reduced customer usage through conservation programs and higher building code and appliance efficiency standards.

On April 1, 2015, SourceGas Arkansas filed a new general rate case, seeking an approval of new rate increases and to modify the two existing riders authorized in the prior rate case. The company filed for an annual revenue increase of approximately \$12.6 million. Also, SourceGas Arkansas requested an approval for an Infrastructure Program Rider (IPR), which is intended to reduce the lag associated with recovering costs for bare steel main and other mains' replacement. The newly proposed rider would combine the currently in place MRP and ARMRP riders used to recover the replacement costs mentioned. SourceGas Arkansas also requested a "forward-looking" rider, which is intended to shorten the regulatory lag further. The hearings are scheduled to begin on December 8, 2015 and the new rates are scheduled to become effective on February 1, 2016.

In Nebraska, the regulatory track record for investor-owned LDCs in the state is limited but there have been some constructive outcomes pointing to a potentially supportive regulatory framework. The most recent rate case outcome in May 2012 was positive from an amount authorized perspective, with SourceGas requesting \$6.1 million and the NPSC authorizing a \$5 million rate increase. The authorized amount was based on a 9.6% ROE with a 51.16% equity ratio. SourceGas has declining block rates in Nebraska which insulates the company against weather impacts. In addition, the commission approved the Pipeline Integrity Recovery Surcharge, providing an annual rate increase of \$1.1 million, a credit positive. On May 1, 2014, SourceGas Distribution (SGD) filed for approval of the System Safety and Integrity Rider (SSIR) and recovery of \$1.5 million for SSIR projects completed in 2014. The NPSC approved SourceGas' request to implement the SSIR and recover the costs for projects completed in 2014. In addition, approvals have already been concluded for the recovery of \$1.3 million for costs incurred in 2015 for SSIR eligible projects. The approval of riders like SSIR and the already implemented Infrastructure System Replacement cost recovery charge could lead to an improved opinion of the Nebraska regulatory environment for SourceGas. These developments are credit positive and evidence of a more supportive framework.

We view the regulatory environments in Colorado and Wyoming to be more credit supportive. We expect that SourceGas will continue to recover its costs within a reasonable time frame. In these states, SourceGas is authorized a 10% and 9.92% ROE, respectively. Our view considers the March 2014 WPSC approval of SGD's application to construct a new compressor station, natural gas transmission pipeline and other facilities to connect SGD's facilities with neighboring interstate pipelines. In addition we take into consideration the pending CPUC approval of SGD'S application to implement the Choice Gas Program (Choice Gas). Choice Gas is the unbundling of natural gas service by allowing competitive commodity supply options. Natural Gas delivery will still be regulated by the CPUC. If approved, SGD's Colorado northeastern and western slope customers will have the opportunity to choose a natural gas supplier and pricing option that best suits their needs. The initial expectation was to have this program become effective June 1, 2016; however on July 17 2015, SGD filed a motion to hold the

proceeding for six months in order to assess how the Black Hills merger may impact the Choice Gas filing. The CPUC approved this motion.

In Colorado, RMNG received an approval for a forward-looking SSIR for a \$0.4 million increase in 2015. In addition, RMNG received an approval for market center services, and a revenue sharing mechanism for transport and liquids' revenues. Our assessment considers that around 48% and 54% of the revenues generated in Colorado and Wyoming, respectively, are related to fixed customer charges and base load usage, which enhances to some degree the LDC's cash flow predictability, a credit positive.

- Organic utility growth driven by infrastructure investment and new customers

SourceGas has been and is expected to remain focused on organic utility growth within its regulated territories. The company's assets in Colorado and Wyoming are well positioned near natural gas supply and transmission lines, resulting in the ability to generate new revenue streams with regulatory approvals already in place. In Arkansas, the emergence of new commercial and agricultural customers provides SourceGas the opportunity of new asset development with regulated, stable and predictable cash flows with long-term contracts in place.

The majority of SourceGas' capital expenditure plan is related to its pipeline integrity management program. This will be approximately 40% of the company's total forecasted capex over the next five years and includes bare steel pipeline replacement. Another important driver behind its capex program is related to the growth in its service territories, and approximately 27% of the 5-year plan is earmarked for investment related to growth. It includes the first phase of the new pipeline to Big River Steel and additional pipeline investment opportunities in Wyoming as well as the proposed purchase of a gas storage facility in Arkansas.

Customer growth is another driver of SourceGas' rate base growth. SourceGas continues to add new customers in rural parts of its territory where there was no natural gas service before and through fuel conversion. Between 2009 and 2014, SourceGas' overall residential customer growth of 1.6% outpaced the U.S. average of 0.3% and the American Gas Association (AGA) member average of 0.5%. Residential customers account for the biggest portion of the company's customer base comprising 86% on average followed by commercial at 12%. We consider this customer composition a credit positive, given the stability and predictability of cash flows produced from this customer class. Agricultural customers continue to be a positive driver, particularly in Arkansas. In Arkansas, the new irrigation conversion market in the northeastern part of the state and continued expansions of poultry farms represent more conversions and new construction. Furthermore, Colorado offers load growth opportunities in CNG refueling stations. Nebraska has new and upgraded commercial grain drying facilities and new corporate development in western Nebraska. Wyoming has had new asphalt plants added to the territory and large commercial opportunities in the energy sector.

- Credit metrics appropriate for rating category but constrained by large parent debt

SourceGas maintains a consistent and stable credit profile and stable financial metrics. The three year average CFO pre-working capital (pre-WC) to debt has been consistently between 14% and 16% over the last three years. CFO pre-WC to debt in the latest twelve months (LTM) ending June 30, 2015 was at the top end of this range at 15.9%, reflecting colder than normal weather in the beginning of 2014. These metrics are adequate for the rating given the range for a Baa-rating under the low business risk grid for that metric is 11% to 19%, under Moody's Regulated Electric and Gas Methodology. On the other hand, its CFO pre-WC after dividend to debt ratio is low for its rating albeit consistent, given the need to service high parent company debt. Over the last three years, it ranged 7%-8%. In the LTM June 30, 2015, the same ratio was 6.9%.

Cash flow generated from the utility operation supports the debt service at SourceGas as well as high dividend distribution rate and the debt service at Holdings' level. These high payout levels pressure the CFO pre-WC less dividends to debt ratio at SourceGas to levels not commensurate with a Baa2 rating. In addition, we expect SourceGas will continue to make similar dividend distributions to Holdings, keeping this credit metric at weak levels for the current rating. Although the dividend policy weakens the retained cash flow credit metric, the rating assumes that the equity investors will make the necessary equity contributions to aid funding the capex program at SourceGas as was the case in the LTM June 30, 2015 when SourceGas received \$57 million from Holdings and made a \$42 million dividend distribution to Holdings. In the same period, Holdings distributed \$32 million to its equity owners and received \$32 million in equity contributions.

- Pending acquisition by Black Hills brings some uncertainty to credit profile

We believe the merger with Black Hills could be a credit positive event for SourceGas. If the acquisition is completed, SourceGas could benefit from being a part of a larger entity while preserving its growth opportunities.

Also, we expect SourceGas may be able to retain more of its net income rather than up-streaming all of it to the parent as it does under the private equity ownership structure. As a result, these developments could potentially improve SourceGas' metrics over time. However, uncertainties around key issues related to the acquisition, such as any regulatory approval conditions required, potential cost savings sharing and the combined company's liquidity profile still remain uncertain.

Liquidity Profile

As of June 30, 2015, SourceGas had a cash balance of \$1 million.

In January 2015, SourceGas issued a new term loan in the amount of \$275 million due July 2016. Its proceeds were used to pay off the its existing \$150 million term loan and to reduce outstanding borrowings of \$126MM under its revolving credit facility. SourceGas also paid down an additional \$40 million of the \$275 million term loan by August 2015. On September 18, 2015, SourceGas amended and extended the maturity date of a new \$280 million term loan and extending the maturity date of its revolving credit facility to June 2017. Additionally, SourceGas also reduced the borrowing capacity of its revolving credit facility from \$175 million to \$100 million. With the anticipated closing date of the Black Hills merger to be in the first half of 2016, further refinancing of these credit facilities is unclear at this time.

At June 30, 2015, SourceGas had \$15.5 million outstanding under its revolving credit facility. The company is one of the few that does not publicly disclose the details of its facility, in particular financial covenants and other possible restrictions on accessing the facility, a credit negative. However, as of June 30, 2015, the company and its subsidiaries stated that they are in compliance with its covenants and we expect SourceGas will continue to be compliant.

We expect SourceGas will use its internally generated cash flows (around \$80 million per year on average), borrowings under the revolving facility, and capital contributions from the parent to fund its capex and continue to manage its dividend policy at historical payout levels.

Rating Outlook

The stable outlook reflects our expectation that SourceGas' credit metrics will remain consistent and stable, specifically that its CFO pre-WC to debt will average in the mid to high teens. It considers our expectation that the company will continue to focus on expanding through organic growth initiatives supported by recovery mechanisms and prudent funding strategies. Furthermore, it anticipates no substantial deterioration in the regulatory credit supportiveness in the four jurisdictions where the LDCs operate. The stable outlook also reflects our view that the Black Hills acquisition is a credit neutral event for now.

What Could Change the Rating - Up

SourceGas could be upgraded if there is a significant reduction in Holdings' debt; if there is a meaningful improvement in the Arkansas and Nebraska regulatory environments; and if credit metrics improve such that SourceGas reports CFO pre-WC to debt above 20% on a sustained basis. An upgrade is also possible if the Black Hills merger results in lowering its debt levels, improving its balance sheet strength, and increasing retained cash flow to fund its capital investments.

What Could Change the Rating - Down

Downward pressure could be triggered by a material deterioration in the credit supportiveness of one or more of the regulatory environments where the LDCs operate. Also, any meaningful deterioration in the credit metrics, such that SourceGas reports a CFO pre-WC to debt ratio below 13% for an extended period could pressure the rating. The rating could also be downgraded if the merger with Black Hills results in a deterioration in SourceGas' cash flows due to less flexibility in the company's dividend policy.

Rating Factors

SourceGas LLC

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 6/30/2015	
Factor 1 : Regulatory Framework (25%)	Measure	Score

[3]Moody's 12-18 Month Forward ViewAs of 9/24/2015	
Measure	Score

a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	A	A	A	A
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.5x	Baa	3x - 5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	15.9%	Baa	13% - 17%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	6.9%	Ba	6% - 9%	Baa
d) Debt / Capitalization (3 Year Avg)	48.4%	A	45% - 55%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa1		Baa1
HoldCo Structural Subordination Notching				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on <http://www.moody's.com> for the most updated credit rating action information and rating history.



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BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-45
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Rich Kinzley**
SUBJECT :

REQUEST NO. PA-56:

Please describe the process within Black Hills for SourceGas managers to develop their capital budget after the proposed merger.

RESPONSE:

After the proposed Transaction, managers will be responsible for following the Black Hills budgeting process. This includes providing capital needs, by project, to the financial manager. Similar information is collected from all managers at the operating unit and then consolidated at the business unit level. The capital budget is reviewed by the subsidiary business unit manager at a capital project level. The capital budgets are then reviewed at the major project level by the vice president - operations, and approved at the consolidated business unit level by the Senior Management Team. Final capital budgets are presented to the Black Hills Board of Directors at a consolidated company level.

ATTACHMENTS: None

Response provided by:

Rich Kinzley
Chris Otto

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-46
Page 1 of 3

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **October 2, 2015**
DATE RESPONDED : **October 2, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Linn Evans - BHUH**
SUBJECT :

REQUEST NO. PA-65:

How will the creation of a new Corporate Headquarters in Rapid City benefit Nebraska ratepayers or create savings, synergies, or other benefits to Nebraska customers?

BUHU RESPONSE:

Objection. BHUH objects to this response to the extent that it seeks information that is not relevant nor likely to lead to relevant information. Without waiving or limiting its objection, BHUH responds as follows:

A new Corporate Headquarters ("HQ") in Rapid City provides benefits to all customers of Black Hills, including those customers located in Nebraska. The cost of the new HQ will be shared among customers from several states in which Black Hills operates its various business units.

The primary benefit to Nebraska customers is potential for lower costs resulting from greater efficiency being allocated to Nebraska. For additional customer and company benefits resulting from the new HQ, please see Attachment NE PA-65.

See also: <https://www.blackhillscorp.com/blog/peak/2015/09/29/breaking-ground-our-new-corporate-headquarters>

ATTACHMENTS:

Attachment NE PA 65 - Corporate Headquarters - Benefits To Customers

Response provided by:

Linn Evans - BHUH

Corporate Headquarters - Benefits For Customers

Black Hills will consolidate five current Rapid City offices into one new Headquarters (HQ) facility. Two of these facilities are leased, and that respective lease expense will be eliminated when the HQ is completed. Thus, a new HQ will minimize or right size the square footage to maintain efficiency of 'bricks and mortar' buildings.

As current facilities of Black Hills age toward functional obsolescence, a large capital investment of approximately \$13.0 million over the next five years will be required for replacement of aging/failing mechanical/electrical/furniture systems and interior/exterior finishes which are in need of updating. An investment in current facilities will not overcome inherent inefficiencies due to smaller floor plans and dispersed and separate office locations.

The new HQ is designed to provide the following benefits:

- Many of the shared resources currently provided by Black Hills Service Company to Black Hills Energy – Nebraska, and upon the close of the transaction, to Black Hills Gas Distribution Company are located in Rapid City.
- A new HQ will benefit Nebraska customers by enhancing the opportunity for Black Hills to attract and retain highly skilled utility employees to a modern work environment.
- A new HQ will enhance the opportunity for Black Hills to employ highly talented staff who are effective, efficient, and passionate about their work. That benefit could present an opportunity to hire fewer employees, which would result in lower costs allocated to Nebraska customers.
- A new HQ facility creates significant opportunities for increased employee productivity and business efficiency with modern office layouts that increase business operational efficiencies by correctly placing workgroups in close proximity with one another.
- The new HQ facility is designed as an office space which incorporates active design promoting employee wellbeing, health, wellness and overall productivity. A new HQ facility will improve the safety and security for employees through modern design elements.
- Improved thermal comfort and lighting will also improve employee productivity. A new HQ provides high-efficiency HVAC systems, greater thermally enclosed envelope, and the latest sustainable features to reduce operational costs.
- An office environment designed to increase employee networking and knowledge sharing should also provide a boost to productivity and efficiency.

- A new HQ facility will eliminate redundant facility services currently being provided through multiple facilities. These facility services include: data/telecommunications, janitorial, maintenance, life-safety and security monitoring.
- A new HQ is intended to provide for a reduction of, or consolidation of administrative overhead expenses, which currently exists in multiple facilities.

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-47
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Linn Evans-BHUH**
SUBJECT : **Cost-Cutting Measures or Procedural Modifications**

REQUEST NO. PA-45:

Have any cost-cutting measures or procedural modifications been identified pre-merger that would have an impact on the ability to render safe, reliable, and timely service to the customers in Nebraska post-merger?

BHUH RESPONSE:

BHUH has not identified or implemented any cost-cutting measures or procedural modifications that would have an impact on the ability to render safe, reliable, and timely service to its customers in Nebraska after the close of the transaction.

BHUH ATTACHMENTS: None

SG RESPONSE:

SourceGas has not identified or implemented any cost-cutting measures or procedural modifications that would have an impact on the ability to render safe, reliable, and timely service to customers in Nebraska post-merger.

SG ATTACHMENTS: None

Response provided by:

Linn Evans- BHUH
Jason Weekley-SG

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 24, 2015**
DATE RESPONDED : **September 24, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Linn Evans**
SUBJECT :

REQUEST NO. PA-46:

Will the current Capital plan for SourceGas infrastructure be changed as a result of the merger? If so, please explain how and why.

RESPONSE:

SourceGas categorizes their capital plans in four areas (i) growth/expansion (ii) pipeline integrity (iii) sustaining and (iv) platform.

Area	Example
growth/expansion	Line extension to new customer
pipeline integrity	Bare steel replacement
sustaining	Rolling stock; facilities improvements
platform	IT software and hardware

Black Hills is currently in the process of evaluating the capital plan and understanding the projects put forth by SourceGas. Thus, specific commitments cannot be made at this time. Subject to further review, however, in general, Black Hills does not expect to make significant changes in the areas of growth/expansion and pipeline integrity capital. Sustaining and platform capital spend, however, is subject to refinement and change based upon the overall plans for integration of SourceGas assets with Black Hills. For example, the fleet or toughbook replacement policy under a combined organization may differ from that of SourceGas stand-alone. In that case, current capital plans would be changed to comply with any updated policies.

ATTACHMENTS: None

Response provided by:

Jeff Sylvester

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-49
Page 1 of 45

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-81:

Please provide a detailed narrative identifying and describing the specific changes anticipated in cost allocation methodology to result with the purchase and integration of SourceGas Distribution in the BHUH system.

RESPONSE:

BHUH expects to follow the current Cost Allocation Manuals ("CAM") for Black Hills Service Company, LLC and Black Hills Utility Holdings, Inc. BHUH does not anticipate changes in the cost allocation methodology as a result of the purchase and integration of SourceGas Distribution in the BHUH system. However, the SourceGas entities will be included in the allocation and direct charge process as outlined in each of the CAMs. Appendix 2 of each of the CAMs identifies the allocation ratios that will be utilized.

ATTACHMENTS:

Attachment PA-81A-2015 Black Hills Service Company CAM
Attachment PA-81B-2015 Black Hills Utility Holdings Company CAM

Response provided by:

Marne Jones

Black Hills Service Company

Cost Allocation Manual

Effective Date: July 14, 2008

Amended: January 1, 2010

Amended: August 1, 2010

Amended: December 1, 2013

Amended: December 1, 2014

Black Hills Service Company Cost Allocation Manual

Table of Contents

Introduction.....	3
Service Company Organization	3
Direct Costs versus Indirect Costs	4
Transaction Coding.....	5
General Ledger Business Unit (GLBU):.....	5
Operating Unit (OpUnit):.....	6
Department (Dept):	6
Account (Acct).....	7
Resource:.....	7
Product:	7
Work Order:	8
Timekeeping	8
Loadings.....	8
Allocation Factors	9
Changing Allocation Factors	10
Subsidiary Payment for Direct and Indirect Charges	10
Allocating Fixed Assets	11
Appendix 1 – BHSC Departments	12
Appendix 2 – Allocation Factors	19

Introduction

The purpose of this cost allocation manual is to document the allocation processes of Black Hills Service Company, from recording the original transaction through the allocation of costs to Black Hills Corporation subsidiaries. Various topics to be addressed include the organization of the Service Company, the recording of transactions, calculating and assigning allocation factors, and recording allocation transactions.

Black Hills Service Company (the Service Company) was formed on December 30, 2004, and was fully implemented and operational as of January 1, 2006. The Service Company was formed as required by the Public Utility Holding Company Act of 1935, which was administered by the Securities and Exchange Commission (SEC). Service companies were required of all registered holding companies under this law. Service companies coordinate corporate support functions and distribute costs to registered holding company subsidiaries using pre-defined allocation methodologies that had to be approved by the SEC.

Black Hills Corporation became a registered holding company at the end of 2004, and through a transition period and various amendments to the registered holding company filings, established the date of January 1, 2006 to fully implement the Service Company. In August of 2005, this law was repealed and replaced by the Public Utility Holding Company Act of 2005, which is administered by the Federal Energy Regulatory Commission (FERC). This new law was effective in February of 2006. Although certain administrative and reporting requirements changed as a result of the repeal, Black Hills Corporation did not change its implementation plan.

The Service Company is a wholly owned subsidiary of Black Hills Corporation (the Holding Company), and is a separate legal entity. The majority of operations and all employees were transferred out of the Holding Company on the effective date of implementation. The only transactions that remain at the Holding Company are transactions pertaining to long-term debt and related deferred finance costs, corporate credit facility and related deferred finance costs, and the administration of money pool transactions for both the utility money pool and the non-utility money pool. In addition, as will be discussed in greater detail later, certain corporate costs are charged directly to the Holding Company. The most notable of these types of costs are corporate development project costs.

Service Company Organization

The Service Company is organized into operating departments based upon the services that those departments provide to Black Hills Corporation subsidiaries. A list of each department, as well as a brief description of the services they provide, is attached as Appendix 1.

Direct Costs versus Indirect Costs

A key issue in distributing Service Company costs is distinguishing between direct costs and indirect costs. The account coding will change depending on whether the cost is a direct or indirect cost. Below is a summary of each of these types of costs and examples of these costs.

Direct costs are those costs that are specifically associated with an identified subsidiary. This means that it is known exactly to which subsidiary these costs relate. Here are some examples:

- A Payroll Processor is processing the payroll for Black Hills Power. The labor costs incurred in processing payroll are specifically associated with an identified subsidiary. Therefore, this would be a direct cost.
- An Internal Auditor travels to Denver to complete audits for Colorado Independent Power Production and Black Hills Exploration and Production. The time associated with completing the audits would be charged to each company based on the time worked for each specific company project. The travel expenses should be split equally or on a pro rata share based on days worked.
- The Human Resources department incurs costs to bring an employment candidate on-site to Gillette for an interview with Wyodak Resources. These travel costs incurred in bringing the employee in for the interview are specifically associated with an identified subsidiary. Therefore, this would be a direct cost.
- A Help Desk technician orders a replacement computer monitor for an employee at Black Hills Power. This hardware cost incurred is specifically associated with an identified subsidiary. Therefore, this would be a direct cost.

Indirect costs are those costs that are not associated with an identified subsidiary. This means that the costs indirectly support all companies or directly support the operation of the Service Company. In other words, costs that would be directly charged to the Service Company using the definition and examples above would be classified as indirect costs. Here are some examples:

- The Internal Audit department is completing a BHC consolidated financial statement audit. Since all entities indirectly affect the financial statements of BHC consolidated, this charge would be considered an indirect cost.
- An Environmental representative attends an industry training event. This charge cannot be directly attributable to any specifically identified company; therefore, this charge would be considered an indirect cost.
- A Help Desk technician orders a replacement computer monitor for an employee of the Service Company. This hardware cost incurred is specifically associated with the Service Company. Therefore, this would be an indirect cost.

It is important to consider two things when determining if a cost is a direct cost or an indirect cost: (1) Can the costs that are coded to a specific company or group of companies be substantiated; and (2) Can it be substantiated that a utility-based entity is not subsidizing the operations of non-utility based company with the time and expenses that have been charged to

them. A certain level of judgment will be involved when deciding whether a particular cost should be directly charged or indirectly allocated.

There are certain costs that will always be considered either direct or indirect costs. Below is a list of significant Service Company expenses that follow these rules:

Always considered direct costs:

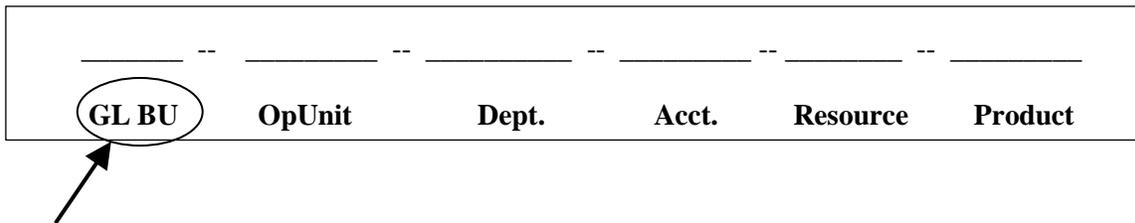
- Capitalized costs for non-BHSC projects (including capitalized labor)
- Corporate development project costs
- Retiree healthcare costs

Always considered indirect costs:

- Board of Directors’ fees and expenses
- General Office rent
- Depreciation of BHSC assets
- Directors’ and officers’ insurance
- Investor relations expenses
- Shareholder expenses
- Intercompany interest expense and income

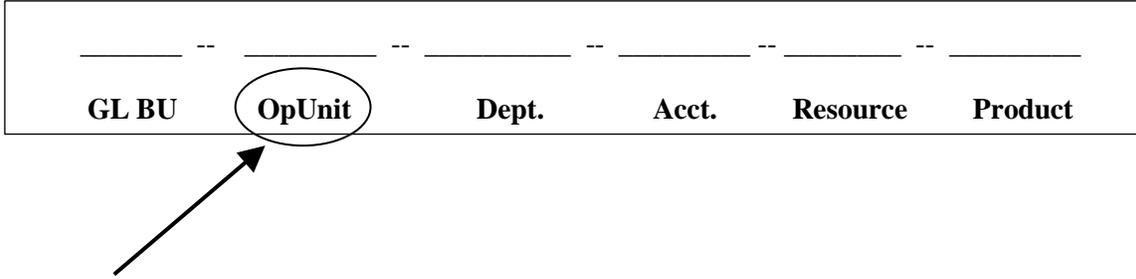
Transaction Coding

The Service Company uses an accounting software system to accumulate and distribute both direct costs and indirect costs. It is important to have costs properly classified as direct or indirect. Direct costs will be directly charged to the subsidiaries, while indirect costs will be allocated to the subsidiaries using pre-defined allocation factors. Below is a description of the coding.



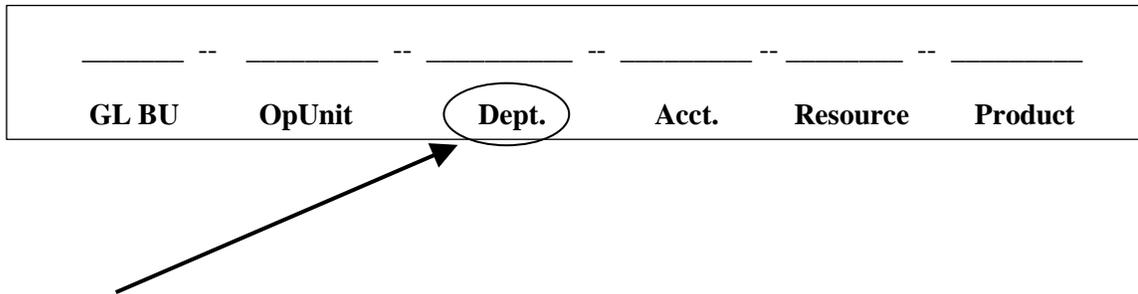
General Ledger Business Unit (GLBU):

- Five (5) character numeric field.
- The GLBU field is used to identify the company that will be receiving the charges, either as a direct cost or an indirect cost.
- The GLBU field is required on all accounting transactions.
- The GLBU field will default based on the operating unit (Op Unit), as described below.



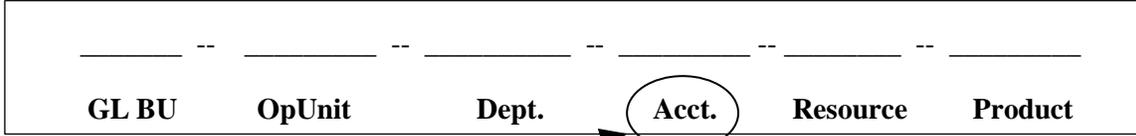
Operating Unit (OpUnit):

- Six (6) character numeric field.
- The OpUnit field is used to identify the code block as either a direct cost or an indirect cost.
- If the cost is a direct cost, the OpUnit field will be populated using the OpUnit code for the company being directly charged.
- The Op Unit field will be populated using one of the BHUH Op Units for indirect costs. Indirect costs also include costs from other areas of the company that are directly related to the Utility Holding Company.



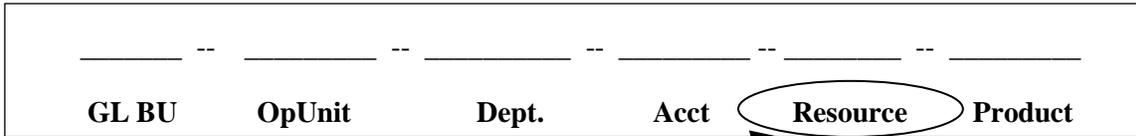
Department (Dept):

- Four (4) character numeric field.
- The Department field is used to identify where the cost(s) originated.
- The Department field is required on all income statement and capital transactions.
- Every Department is assigned to a GLBU.



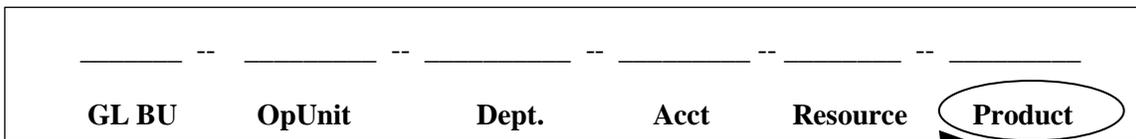
Account (Acct)

- Six (6) character numeric field.
- The Account field is required on all accounting transactions.
- All companies will generally use the same Chart of Accounts although some values will be specific to certain companies.



Resource:

- Four (4) character numeric field.
- A Resource is used to identify types of costs.
- The Resource field is required for all income statement and capital accounting transactions.

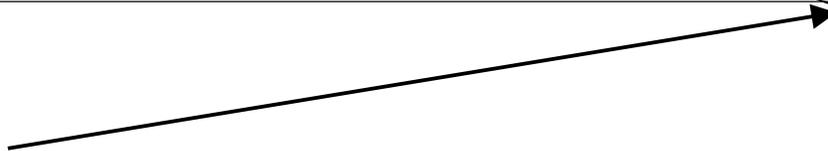


Product:

- Three (3) character numeric field.

- A Product code is used to identify business lines.
- Examples of the product line include electric, gas, coal and non-regulated

GL BU	OpUnit	Dept.	Acct	Resource	Product	Work Order
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Work Order:

- Eight (8) character numeric field.
- Represents the collection of costs to allow the monitoring of a job or group of costs.
- The Work Order field is required on all construction work in progress transactions

Timekeeping

All Service Company employees are required to complete a timesheet for each two week pay period. Timesheets of appropriate employees must be approved by a supervisor.

Employees must complete the code block, as previously discussed, for each time record. The timesheet will default the department and resource. However, the employee is responsible for providing the remainder of the code block. Employees are encouraged to enter their time in one half hour increments, although they may use smaller increments if they so choose.

Loadings

Certain benefits that are provided to employees become an inherent cost of labor. To account for these benefits and allow for them to be charged to the appropriate subsidiary, they become part of a loading rate that is added on to each payroll dollar.

The loading rates are calculated at the beginning of the year based on budgeted benefit expenses and budgeted labor. Benefit costs and loading rates are reviewed, and updated as needed. Below is a list of components of the loading rates:

General labor loadings:

- **Compensated Absences:** including but not limited to paid time off (PTO), Holiday, Jury duty, Funeral pay, United Way day, Short-term Disability and Annual Physical appointment.
- **Payroll Taxes:** including but not limited to FICA, FUTA SUTA and city taxes

- Employee Benefits: including but not limited to health and medical, 401K match and fees, Pension, Retiree healthcare and associated fees and Pension audit fees
- Incentives: including but not limited to Non-officer incentive plans, Restricted Stock and Stock Option expense

Supplemental loadings:

- Officer short term incentive plans
- Officer supplemental retirement
- Officer performance plan

Loadings calculated on payroll are based on estimated benefit costs, therefore, differences between actual benefits will be inherent to this process. After the difference is calculated and reviewed for reasonableness, it is recorded to a separate department, and indirectly allocated to Black Hills Corporation subsidiaries.

Allocation Ratios

As previously stated, Service Company costs are either directly charged to a subsidiary, or indirectly allocated when the cost is not associated with a specific subsidiary. Indirect costs are allocated using one of several pre-defined allocation ratios. Each department has been assigned one of these allocation ratios. All indirect costs of that department are then allocated using that ratio. When determining which allocation ratio should be assigned to each department, a ratio is selected based on the specific cost driver of that department. For instance, the expenses incurred by a Human Resources department are primarily related to their support of all company employees. In this example, the cost driver for the Human Resources department indirect costs is employees. Therefore, their indirect costs will be allocated based upon the Employee Ratio.

For certain departments, a specific cost driver may not be clearly identifiable or the driver may not be cost effective to compute on a continuing basis. In these instances, a three-pronged general allocation ratio is used, which is referred to as the Blended Ratio. This ratio equally weights three different general ratios: Gross Margin, Asset Cost, and Payroll Dollars. These factors were chosen to be included in the Blended Ratio because they best allocate costs based on the diverse nature of BHC operations.

In addition, some departments utilize a Holding Company Blended Ratio. The difference between the Blended Ratio and the Holding Company Blended Ratio is that the Holding Company Blended Ratio allocates a percentage of costs to BHC Holding Company. For example, the Corporate Governance department will allocate indirect costs using the Holding Company Blended Ratio because certain costs incurred, such as New York Stock Exchange fees and Board of Directors costs, relate to both the Holding Company and the subsidiary companies.

One additional item to note is that pooled benefits, primarily health care costs, are allocated differently due to the pooling method for benefits such as self-insured health care. Black Hills Corporation has chosen to pool certain benefit costs and spread the risk amongst all subsidiaries

equally. All pooled benefit costs of BHC are paid by the Service Company and allocated to subsidiaries based on employee counts.

A list of all allocation ratios, including a brief description of the ratio, the basis for the calculation of the ratio, and the department to which that ratio has been assigned, is attached hereto as Appendix 2.

Changing Allocation Ratios

Allocation ratios are set at the first of the year, based upon financial information from the prior year ending December 31st. Assets, utility assets, employee counts, and power generation capacity are based on values as of the previous period ending December 31st. Gross margin, utility gross margin, payroll dollars, and utility payroll dollars are based on values for the 12 months ended December 31st.

Certain events may occur during the year that are deemed to be significant to Black Hills Corporation that will require corresponding adjustments be made to the allocation ratios. Examples of these types of events include acquisitions, divestitures, new generation, significant change in asset base, significant staffing changes or new, significant revenue streams.

When these events occur, indirect allocation ratios will be adjusted. When adjusting allocation ratios, it is the policy of the Service Company to not recalculate all allocation ratios. Rather, allocation ratios will be adjusted with pro forma adjustments for the subsidiary with a significant change in a specific allocation ratio base. For example, if an acquisition occurs during the middle of the year, pro forma values will be loaded. Asset values at the time of the acquisition would be used, as well as pro forma gross margin and payroll dollars for a 12 month period. It should be noted that estimations may be required, especially when significant additions or changes are expected as a result of the acquisition.

It should also be noted that asset values, gross margin, and payroll dollars for the other companies will not be changed. However, the ratios will change because the base against which the ratios are calculated will change. Subsidiary companies would see decreased ratio values with acquisitions, and increased ratio values with divestitures. Changes will be effective as of the beginning of the month following the significant event, and will apply to all transactions for the month.

Subsidiary Payment for Direct and Indirect Charges

It is the policy of the Service Company to insure payments are made by the subsidiary companies for direct and indirect charges. All payments for direct and indirect charges must be remitted to the Service Company by the end of the following month. The Service Company will monitor

payments received during the month to insure that all subsidiary companies make payment in a timely manner.

Allocating Fixed Assets

The Service Company maintains certain fixed assets that are used by and benefit multiple Black Hills Corporation subsidiaries. These fixed assets primarily consist of computer hardware and software that form the corporate-wide information technology network. Because these fixed assets support multiple Black Hills Corporation subsidiaries, they are allocated to the appropriate subsidiaries monthly as part of the month-end close process, along with the allocation of these assets' accumulated depreciation. Construction Work in Process balances are not allocated.

Allocated assets and accumulated depreciation are maintained in separate general ledger accounts at the subsidiary level so that they are not intermingled with regular subsidiary fixed assets, and for ease of reconciliation.

The allocation ratio used for fixed assets and accumulated depreciation is the Blended Ratio, except as otherwise noted. Depreciation expense is also allocated using the Blended Ratio.

Appendix 1 – BHSC Departments

The following departments are included in BHSC as of 01/01/2015 and are subject to changes as required to support evolving business requirements.

SC-ACCOUNTING SYSTEMS (4700)

Description: Maintains the corporate- wide accounting systems of Black Hills Corporation, most notably the general ledger and financial statement preparation systems. (Blended)

SC-DISBURSEMENTS (4701)

Description: Processes payments to vendors and prepares 1099s and applicable documentation for the majority of Black Hills Corporation subsidiaries. Also, processes payroll including but not limited to time reporting, calculation of salaries and wages, payroll tax reporting and compliance reports for Black Hills Corporation and its subsidiaries. (Blended)

SC-CORP DEVELOPMENT (4702)

Description: Facilitates the development of the corporate strategy, prepares strategic plans, and evaluates potential business opportunities. Department also assists various subsidiaries with financial analysis and special projects. (HoldCo Blended)

SC-CORP GOV AND SHAREHOLDER SERV (4703)

Description: Develops and enforces corporate governance policies and procedures in accordance with applicable laws and regulations. Provides oversight of compliance with Securities and Exchange Commission rules and regulations. Oversees the administrative duties to the Board of Directors. Provides various recordkeeping and administrative services related to shareholder services. Assists in the administration of equity-based compensation plans. (HoldCo Blended)

SC-TAX (4704)

Description: Prepares quarterly and annual tax provisions of all Black Hills Corporation subsidiaries. Maintains and reconciles all current and deferred income tax general ledger accounts. Prepares tax filings and ensures compliance with applicable laws and regulations. Oversees various tax planning projects. (Blended)

SC-CREDIT AND RISK (4705)

Description: Provides risk management, risk evaluation, and risk analysis services. Provides support to the Executive Risk Committee. Evaluates contract risks. (Blended)

SC-LEGAL - CORPORATE (4706)

Description: Provides legal counsel and services related to general business operations, including labor and employment law, finance, litigation, contracts, utility rates and regulation, financial reporting, Securities and Exchange Commission, Federal Energy Regulatory Commission and other state and federal compliance, environmental matters, real estate and other legal matters. Oversees the hiring and administration of external counsel. Provides legal support to various corporate development projects. (Blended)

SC-CORPORATE AFFAIRS (4708)

Description: Provides oversight to Public Relations, Marketing, Governmental Affairs, Regulatory Affairs and Regulatory Services/Resource Planning for all Black Hills Corporation and its subsidiaries. (Blended)

SC-ENVIRONMENTAL SERVICES (4709)

Description: Establishes policies and procedures for compliance with environmental laws and regulations. Researches emerging environmental issues and monitors compliance with environmental requirements. Oversees environmental clean-up projects. Obtains permits to support the business operations of Black Hills Corporation and its subsidiaries. (Asset Cost)

SC-EXECUTIVE MGMT (4710)

Description: Provides overall oversight of Black Hills Corporation and its subsidiaries. Provides the Board of Directors information for decision making purposes. (HoldCo Blended)

SC-SAFETY (4711)

Description: Develops and implements safety planning activities and provides employee safety education. Administers the corporate safety program. Assists with compliance with DOT, OSHA, and MSHA regulations. (Employee)

SC-FINANCE AND TREASURY (4712)

Description: Coordinates activities related to securities issuance, including maintaining relationships with financial institutions, debt holders, rating agencies, equity analysts and equity investors. Performs accounting, cash management, debt compliance, and investing activities. Monitors capital markets to support financial planning for all subsidiaries. Oversees the administration of corporate pension and 401(k) plans. (HoldCo Blended)

SC-FINANCIAL REPORTING (4713)

Description: Oversees the corporate consolidation of subsidiary financial statements. Prepares monthly internal financial reports for management. Prepares quarterly and annual financial reports to the Securities and Exchange Commission, financial statements to banks and quarterly and annual financial statements filed with FERC. Researches emerging accounting issues and assists with the compliance of new accounting rules and regulations. (HoldCo Blended)

SC-BUDGET AND FORECAST (4714)

Description: Oversees the accumulation of subsidiary financial budgets and forecasts. Provides the consolidation of the corporate wide- budget and forecast. Guides the preparation of strategic plans. (Blended)

SC-GENERAL ACCOUNTING (4715)

Description: Provides management and administrative support for accounting and finance functions of the Company's regulated and non-regulated businesses including external audit coordination. (Blended)

SC-ACCOUNTING-CENTRAL SERVICES (4716)

Description: Maintains the accounting records for Black Hills Service Company and Black Hills Corporation. Provides oversight of the Disbursements and Property Accounting departments. (Blended)

SC-FINANCIAL MANAGEMENT ELECTRIC UTILITIES AND GENERATION SERVICES (4717)

Description: Provides financial management to the electric utilities and non-regulated generation facilities, and accounting support to all generation facilities. (Blended)

SC-HUMAN RESOURCES REGULATED (4720)

Description: Provides general Human Resources support services to the subsidiaries through the administration of policies and labor contracts for all facets of Human Resources, including employee relations, labor relations, talent management, recruiting and employment staffing, compensation and benefits administration. (Employee)

SC-COMPENSATION AND BENEFITS (4721)

Description: Administers policies related to compensation and benefits. Oversees the self-insured medical benefits plans and other pooled benefits and provides support to the third party administrators of the plans. (Employee)

SC-ORGANIZATIONAL DEVELOPMENT AND TRAINING (4722)

Description: Provides for employee and leadership development, succession planning, performance management, goal alignment, employee engagement, strategic workforce planning, talent assessment and general HR support for Black Hills Corporation and its subsidiaries. (Employee)

SC-INSURANCE (4724)

Description: Facilitates physical risk management strategies through the purchase and evaluation of various types of insurance coverage. Provides claims management services. (Blended)

SC-INTERNAL AUDIT (4725)

Description: Reviews internal controls and procedures to ensure assets are safeguarded and transactions are properly authorized and recorded. Oversees the Sarbanes Oxley compliance efforts. (Blended)

SC-IN-HOUSE CREATIVE SOLUTIONS (4726)

Description: Provides program for effective, measured, and coordinated advertising. Manages, develops and implements communication channels to maintain effective communications with stakeholders. Designs and develops communication materials. (Blended)

SC-POWER DELIVERY MGMT (4728)

Description: Performs resource planning, power delivery management, strategic planning, and construction management for the corporation's power generation assets. (Generation Capacity)

SC-PROPERTY ACCOUNTING (4729)

Description: Maintains the accounting records for property, plant and equipment for the majority of subsidiaries of the corporation. Assists in compliance with regulatory accounting requirements as it relates to property. Prepares various operating and financial reports for management. (Asset Cost)

SC-RECORDS MGMT (4730)

Description: Administers and maintains the records retention policies and procedures of the corporation. Manages and maintains the content management software. (Blended)

SC-SUPPLY CHAIN MGMT (4731)

Description: Develops strategies and provides general oversight to Facilities, Contract Management, Strategic Sourcing, Procurement, Fleet Services, Materials Management and Supplier Diversity departments. (Blended)

SC-CONTRACTS MGMT (4732)

Description: Manages contracts, including drafting, negotiating, reviewing and interpreting contracts. (Blended)

SC-STRATEGIC SOURCING (4733)

Description: Executes the procurement process including, purchasing activities, managing vendor relationships, and issue resolution and tracking and expediting orders. (Blended)

SC-FLEET SERV (4734)

Description: Manages fleet expense cards, fleet contracts, vehicle purchasing, replacement, disposal, licensing/registration and titling. Advises on vehicle maintenance and repairs, alternative fuel selections and implementations. (Blended)

SC-FACILITIES (4736)

Description: Provides facility, construction, and real estate management services for corporate-wide facilities. Supports disaster recovery and business continuation planning. (Blended)

SC-GOVERNMENTAL AFFAIRS (4741)

Description: Advances corporate objectives by initiating, influencing, monitoring, and researching government legislation and policies. Acts as a liaison with legislators and other governmental officials. Maintains relationships with federal, state and other governmental bodies. (Blended)

SC-IT ADMINISTRATION (4742)

Description: Provides guidance, governance, and strategic planning to the overall information technology operations. (Blended)

SC-IT BUSINESS APPLICATIONS-FIN AND HR SYSTMS (4743)

Description: Manages, maintains, and enhances the financial and human resource related business applications of the company. (Blended)

SC-IT BUSINESS APPLICATIONS-REGULATED (4744)

Description: Manages, maintains, and enhances business applications within the utility companies. (Utility Blended)

SC-IT BUSINESS APPLICATIONS-WEB SERV SUPP (4745)

Description: Manages, maintains, and enhances the web-based service business applications of the company. (Blended)

SC-IT BUSINESS APPLICATIONS-WHOLESALE AND ENTERPRISE (4746)

Description: Manages, maintains, and enhances the wholesale and enterprise-wide business applications of the company. (Blended)

SC-IT INFRASTRUCTURE SERV (4747)

Description: Manages, maintains, and enhances data center operations, infrastructure servers, storage, system software, enterprise architecture, and corporate databases. (Blended)

SC-IT COMMUNICATIONS (4748)

Description: Manages and supports the data and voice communication needs for the company. Provides telecommunication expense management services. (Blended)

SC-IT USER SERVICES (4749)

Description: Provides technology support services for the company, including field services. (Blended)

SC-IT COMPLIANCE (4751)

Description: Responsible for internal and external audit compliance, disaster recovery, change management and legal compliance related to technology. (Blended)

SC-MATERIALS MGMT (4752)

Description: Manages inventory, obsolescence and scrap. Ensure availability of proper materials. Pull, restock and stage materials. (Blended)

SC-CONTINUOUS IMPROVEMENT (4753)

Description: Helps identify solutions to improve work processes, maximize business performance and add value for customers and stakeholders. (Blended)

SC-GENERATION PLANT OPERATIONS (4754)

Description: Operates and manages the generation for BHCOE and BHCIPP. (NamePlate Generation Capacity)

SC-IT HELPDESK / TECHNOLOGY INTEGRATION (4755)

Description: Provides IT telephone support, technology training and technology integration services. (Blended)

SC-CPGS PLANT OPERATIONS (4756)

Description: Operates and manages the new generation for the Cheyenne Prairie Generation Station. (NamePlate Generation Capacity)

SC-PROCUREMENT (4760)

Description: Executes the procurement process including, purchasing activities, managing vendor relationships, and issue resolution and tracking and expediting orders. (Blended)

SC – ASSET BLENDED (4793)

Description: Records depreciation for the Service Company assets. (Blended)

SC-BENEFIT POOLED (4794)

Description: Records pooled benefit costs, primarily related to health and welfare for Black Hills Corporation and its subsidiaries. (Employee)

SC-ACCOUNTING ACCRUAL ENTRIES (4795)

Description: Records accrual of certain charges not related to specific departments or not significant enough to allocate to each department. (Blended)

SC-BENEFITS LOADING (4796)

Description: Records overhead benefit costs loaded to labor costs (Blended)

CATCH-ALL

Description: Departments at Black Hills Corporation that are not specifically listed in the CAM or included in the master allocation design that charge BHSC will be allocated using the Blended Allocation Ratio.

Appendix 2 – Allocation Ratios

Asset Cost Ratio – Based on the net cost of assets as of December 31 for the prior year, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Assets are limited to property, plant, and equipment, and include construction or work in process less accumulated depreciation, depletion and amortization (compliance with GAAP).

The Environmental Services and Property Accounting departments utilize this ratio, and it is a component in the Blended Ratio and the Holding Company Blended Ratio.

Gross Margin Ratio – Based on the total gross margin for the prior year ending December 31, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Gross margin is defined as revenue less cost of sales. Certain intercompany transactions may be excluded from gross margin if they would not have occurred if the revenue relationship was with a third party instead of a related party.

No departments utilize this ratio, but it is a component in the Blended Ratio and the Holding Company Blended Ratio.

Payroll Dollars Ratio – Based on the total payroll dollars for the prior year ending December 31, the numerator of which is the direct payroll charges from all BHC subsidiaries charging the applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Payroll dollars include all bonuses and compensation paid to employees, but do not include items that are only included on an employee's W-2 for gross-up and income tax purposes, such as life insurance premiums over \$50,000.

No departments utilize this ratio, but it is a component in the Blended Ratio and the Holding Company Blended Ratio.

Blended Ratio – A composite ratio comprised of an average of the Asset Cost Ratio, the Payroll Dollars Ratio, and the Gross Margin Ratio. These ratios are equally weighted. This ratio is sometimes referred to as the general allocation ratio.

Departments that utilize this ratio include Accounting Systems, Accounts Payable, Tax, Credit and Risk, General Accounting, Insurance, Internal Audit, Legal, Corporate Affairs, Budget and Forecast, General Accounting, Accounting-Central Services, Engineering Rotation Program, Insurance, Internal Audit, In-House Creative Solutions, Records Management, Supply Chain

Management, Contract Management, Strategic Sourcing, Fleet Services, Facilities, Governmental Affairs, Information Technology Administration, Information Technology Business Applications Wholesale and Enterprise, Information Technology Business Applications Web Service Support, Information Technology Business Applications Financial and HR Systems, Information Technology Infrastructure Services, Information Technology Communications, Information Technology User Services, Corporate Security, Information Technology Compliance, Materials Management, Continuous Improvement, Information Technology Helpdesk / Technology Integration, Procurement, Assets Blended, Accounting Accruals, Benefits and BHSC portion of the Rapid City Plant Street Facility, Midlands Data Facility and Bellevue Data Center Facility.

Holding Company Blended Ratio – 5% of costs allocated to the Holding Company, with the remaining 95% of costs allocated using a composite ratio comprised of an average of the Asset Cost Ratio, the Payroll Dollars Ratio, and the Gross Margin Ratio. These ratios are equally weighted.

Departments that utilize this ratio include Corporate Development, Corporate Governance and Shareholder Services, Executive Management, Finance and Treasury and Financial Reporting.

Employee Ratio – Based on the number of employees at the end of the prior year ending December 31, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries.

Departments that utilize this ratio include Safety, Human Resources Regulated, Compensation and Benefits and Organizational Development and Training. Health and welfare costs for BHC will be in a pool and allocated to subsidiaries based on the Employee Ratio.

Power Generation Capacity Ratio – Based on the total power generation capacity at the end of the prior year ending December 31, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Power generation includes capacity in service and capacity under construction.

Departments that use this ratio include Power Delivery Management and Accounting-Generation Services.

Utility Asset Cost Ratio – Based on the total cost of utility assets as of December 31 for the prior year, the numerator of which is for an applicable BHC utility subsidiary and the denominator of which is for all applicable BHC utility subsidiaries. Utility assets are limited to property, plant, and equipment, and include construction or work in process less accumulated depreciation, depletion and amortization (compliance with GAAP)..

No departments utilize this ratio, but it is a component in the Utility Blended Ratio

Utility Employee Ratio – Based on the number of utility employees at the end of the prior year ending December 31, the numerator of which is for an applicable BHC utility subsidiary and the denominator of which is for all applicable BHC utility subsidiaries.

No departments currently utilize this ratio.

Utility Gross Margin Ratio – Based on the total utility gross margin for the prior year ending December 31, the numerator of which is for an applicable BHC utility subsidiary and the denominator of which is for all applicable BHC utility subsidiaries. Utility gross margin is defined as revenue less cost of sales. Certain intercompany transaction may be excluded from utility gross margin if they would not have occurred if the revenue relationship was with a third party instead of a related party.

No departments utilize this ratio, but it is a component in the Utility Blended Ratio.

Utility Payroll Dollars Ratio – Based on the total utility payroll dollars for the prior year ending December 31, the numerator of which is for an applicable BHC utility subsidiary and the denominator of which is for all applicable BHC utility subsidiaries. Utility payroll dollars include all bonuses and compensation paid to employees, but do not include items that are only included on an employee's W-2 for gross-up and income tax purposes, such as life insurance premiums over \$50,000.

No departments utilize this ratio, but it is a component in the Utility Blended Ratio.

Utility Blended Ratio – A composite ratio comprised of an average of the Utility Asset Cost Ratio, the Utility Payroll Dollars Ratio, and the Utility Gross Margin Ratio. These ratios are equally weighted.

The IT Business Applications Regulated department utilizes this ratio.

Nameplate Generation Capacity Ratio – Based on the total facility's power generation capacity at the end of the prior year ending December 31, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Nameplate generation includes capacity in service and capacity under construction at the facility.

The Generation Plant Operations and CPGS Plant Operations departments utilize this ratio.

Square Footage Ratio – The total square footage of a given facility, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries.

The Rapid City Plant Street Facility and the Denver Office Facility utilize this ratio.

Black Hills Utility Holdings, Inc.

Cost Allocation Manual

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Black Hills Utility Holdings, Inc. Cost Allocation Manual

Table of Contents

Introduction.....	3
BHUH Organization	3
Direct Costs versus Indirect Costs	3
Transaction Coding.....	5
General Ledger Business Unit	5
Operating Unit	6
Department (“Dept.”).....	6
Account (“Acct.”)	7
Resource.....	7
Product	8
Work Order	8
Timekeeping	8
Loadings.....	9
Allocation Ratios	9
Changing Allocation Ratios.....	10
Subsidiary Payment for Direct and Indirect Charges.....	11
Allocating Fixed Assets	11
Allocating Capitalized Inventory	12
Appendix 1- BHUH Departments.....	13
Appendix 2- Allocation Ratios	20

Introduction

The purpose of this cost allocation manual is to document the allocation processes of Black Hills Utility Holdings, Inc. (“BHUH”), from recording the original transaction through the allocation of costs to entities receiving services from BHUH. Various topics to be addressed include the organization of BHUH, the recording of transactions, calculating and assigning allocation ratios, and recording allocation transactions.

BHUH began formal operations in July 2008. The company was formed in anticipation of the purchase of certain gas and electric utility operating companies from Aquila, Inc. BHUH is a wholly owned subsidiary of Black Hills Corporation (“BHC”). BHUH is the parent company of each of the five acquired Aquila operating companies. In addition, BHUH also supports the operations of the five acquired Aquila operating companies and other utility and utility like operating companies, together the “operating companies”. These costs are allocated to the operating companies requesting service using formal cost allocation methodologies. Departments that provide support services to the five acquired Aquila operating companies as well as other Black Hills Corporation subsidiaries are held at Black Hills Service Company, LLC (“BHSC”). BHSC cost allocation methodologies are discussed in a separate cost allocation manual.

BHUH Organization

BHUH is organized into operating departments based upon the services that those departments provide to the operating companies. A list of each department, as well as a brief description of the services they provide, is attached hereto as Appendix 1.

Direct Costs versus Indirect Costs

A key issue in distributing BHUH costs is distinguishing between direct costs and indirect costs. The account coding will change depending on whether the cost is a direct or indirect cost. Below is a summary of each of these types of costs and examples of these costs.

Direct costs are those costs that are specifically associated with an identified operating company. This means that it is known exactly to which operating company these costs relate. Here are some examples:

- Advertising is prepared for a new customer information and instructional advertising campaign in the state of Nebraska. The advertising costs incurred are specifically associated with an identified operating company. Therefore, this would be a direct cost.
- The Vice President of Utilities attends a meeting on the proposed budget for the state of Iowa. The labor costs incurred in attending this meeting are specifically associated with an identified operating company. Therefore, this would be a direct cost.
- A trainer from Gas Engineering travels to various Black Hills Kansas Gas field offices to conduct training. These travel costs are specifically associated with an identified operating company. Therefore, this would be a direct cost.

Indirect costs are those costs that are not associated with an identified operating company. This means that the costs indirectly support all companies or directly support the operation of BHUH. In other words, costs that would be directly charged to BHUH using the definition and examples above would be classified as indirect costs. Here are some examples:

- Advertising is prepared for all customers to inform them of changes to electronic payment processes. These advertising costs incurred apply to all operating companies. Therefore, this would be an indirect cost.
- The Vice President of Utilities attends a meeting to present the consolidated budget for all gas utilities to the Board of Directors. The labor costs incurred in attending this meeting are not specifically associated with an identified operating company. Therefore, this would be an indirect cost.
- A trainer from Gas Engineering travels to Rapid City to present a training program to operating company executives. These travel costs are specifically associated with BHUH. Therefore, this would be an indirect cost.

It is important to consider two things when determining if a cost is a direct cost or an indirect cost: (1) Can the costs coded to a specific operating company or group of operating companies be substantiated, and (2) Can it be substantiated that a utility-based subsidiary is not subsidizing the operations of a non-utility based subsidiary with the time and expenses that have been charged to them. A certain level of judgment will be involved when deciding whether a particular cost should be directly charged or indirectly allocated.

There are certain costs that will always be considered either direct or indirect costs. Below is a list of significant BHUH expenses that follow these rules:

Always considered direct costs:

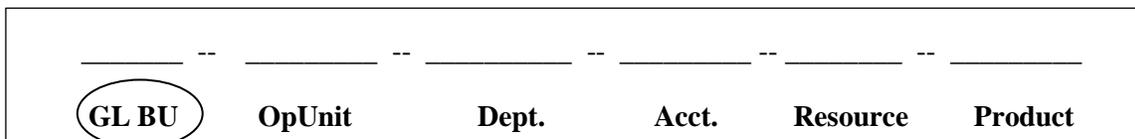
- Capitalized costs for non-BHUH projects (including capitalized labor)
- Retiree healthcare costs

Always considered indirect costs:

- Depreciation of BHUH and BHSC assets
- Intercompany interest expense and income related to the BHUH balance payable or receivable from the Utility Money Pool

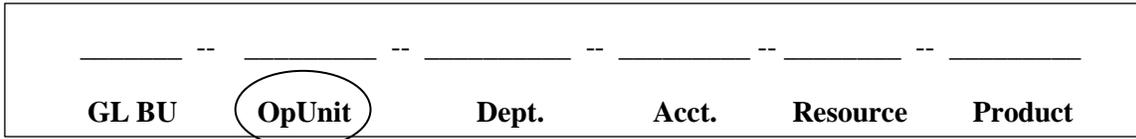
Transaction Coding

The Holding Company uses an accounting software system to accumulate and distribute both direct costs and indirect costs. It is important to have costs properly classified as direct or indirect. Direct costs will be directly charged to the subsidiaries, while indirect costs will be allocated to the subsidiaries using pre-defined allocation factors. Below is a description of the coding.



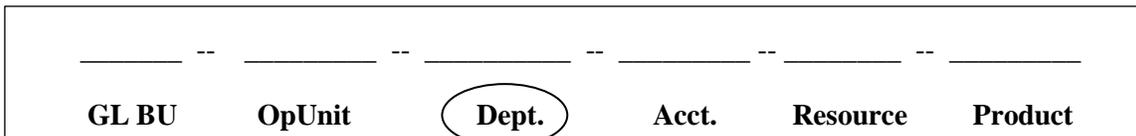
General Ledger Business Unit (GLBU):

- Five (5) character numeric field.
- The GLBU field is used to identify the company that will be receiving the charges, either as a direct cost or an indirect cost.
- The GLBU field is required on all accounting transactions
- The GLBU field will default based on the operating unit (Op Unit), as described below.



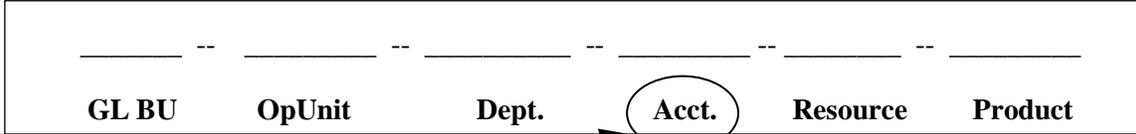
Operating Unit (OpUnit):

- Six (6) character numeric field.
- The Op Unit field is used to identify the code block as either a direct cost or an indirect cost.
- If the cost is a direct cost, the Op Unit field will be populated using an Op Unit at the specific company being charged.
- The Op Unit field will be populated using one of the BHUH Op Units for indirect costs. Indirect costs also include costs from other areas of the company that are directly related to the Utility Holding Company.



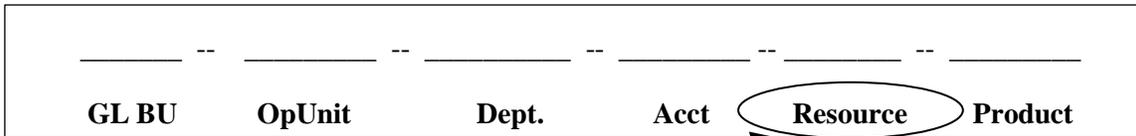
Department (Dept.):

- Four (4) character numeric field
- The Department field is used to identify where the cost(s) originated
- The Department field is required on all income statement and capital transactions
- Every Department is assigned to a GLBU



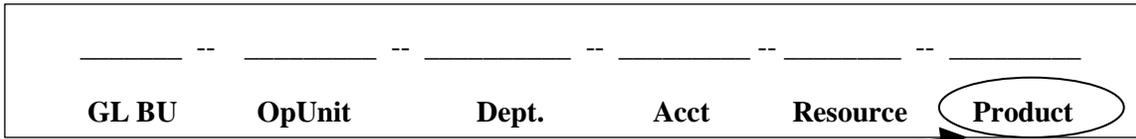
Account (Acct.):

- Six (6) character numeric field
- The account field is required on all accounting transactions
- All companies will generally use the same Chart of Accounts although some values will be specific to certain companies.



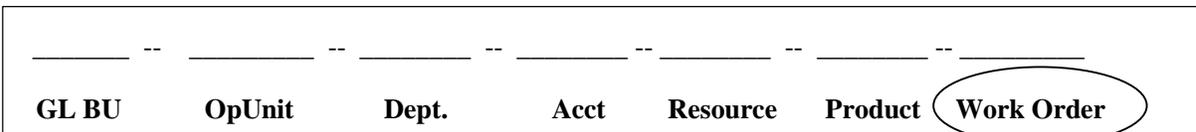
Resource:

- Four (4) character numeric field
- A Resource is used to identify types of costs
- The Resource field is required for all income statement and capital accounting transactions



Product:

- Three (3) character numeric field
- A Product is used to identify business lines
- Examples of the product line include electric, gas, and non-regulated



Work Order:

- Eight (8) character numeric field
- Represents the collection of costs to allow the monitoring of a job or group of costs
- The work order field is required on all construction work in progress transactions

Timekeeping

All BHUH employees are required to complete a timesheet for each two week pay period. Timesheets of appropriate employees must be approved by a supervisor.

Employees must complete the coding string, as previously discussed, for each time record. The timesheet will default the department and resource. However, the employee is responsible for providing the

remainder of the code block. Employees are encouraged to enter their time in one half hour increments, although they may use smaller increments if they so choose.

Loadings

Certain benefits that are provided to employees become an inherent cost of labor. To account for these benefits and allow for them to be charged to the appropriate subsidiary, they become part of a loading rate that is added on to each payroll dollar.

The loading rates are calculated at the beginning of the year based on budgeted benefit expenses and budgeted labor. Benefit costs and loading rates are reviewed, and updated as needed. Below is a list of components of the loading rates:

General labor loadings:

- **Compensated Absences:** including but not limited to paid time off (PTO), Holiday, Jury duty, Funeral pay, United Way day, Short-term Disability and Annual Physical appointment.
- **Payroll Taxes:** including but not limited to FICA, FUTA SUTA and city taxes.
- **Employee Benefits:** including but not limited to health and medical, 401K match and fees, Pension, Retiree healthcare and associated fees and Pension audit fees.
- **Incentives:** including but not limited to Non-officer incentive plans, Restricted Stock and Stock Option expense.

Loadings calculated on payroll are based on estimated benefit costs, therefore, differences between actual benefits will be inherent to this process. After the difference is calculated and reviewed for reasonableness, it is recorded to a separate department, and indirectly allocated to Black Hills Corporation subsidiaries.

Allocation Ratios

As previously stated, BHUH costs are either directly charged to an operating company, or indirectly allocated when the cost is not associated with a specific operating company. Indirect costs are allocated

using one of several pre-defined allocation ratios. Each department has been assigned one of these allocation ratios. All indirect costs of that department are then allocated using that ratio. When determining which allocation ratio should be assigned to each department, a ratio was selected based on the specific cost driver of that department. For instance, the expenses incurred by the Customer Service - Rapid City department are primarily related to the support of all utility customers. In this example, the cost driver for the Customer Service - Rapid City department indirect costs is the number of customers. Therefore, the indirect costs will be allocated based upon the Customer Count Ratio.

When determining how the assigned ratio should be applied, consideration is given to the operating companies or segments that are supported by the department. For instance, the Appliance Technical Training department was determined to have a cost driver of number of Service Guard customers. Therefore, the indirect costs will be allocated based on the Customer Count Ratio using Service Guard customers whereas the Customer Service – Rapid City department used in the previous example would be allocated based on the Customer Count Ratio using Regulated Utility customers.

For certain departments, a specific cost driver may not be clearly identifiable or the driver may not be cost effective to compute on a continuing basis. In these instances, a three-pronged general allocation ratio is used. This ratio equally weights three different general ratios: Gross Margin, Asset Cost, and Payroll Dollars. These factors were chosen to be included in the Blended Allocator Ratio because they best allocate costs based on the diverse nature of BHUH operations.

A list of all allocation ratios, including a brief description of the ratio, the basis for the calculation of the ratio, and the department to which that ratio has been assigned, is attached hereto as Appendix 2.

Changing Allocation Ratios

Allocation ratios are set at the first of the year, based upon financial information from the prior year ending December 31st. The ratios for Asset Cost and Customer Count are based on values as of the previous period ending December 31st. The ratios for Gross Margin, Payroll Dollars, are based on values for the 12 months ended December 31st.

Certain events may occur during the year that are deemed to be significant to BHUH that will require corresponding adjustments be made to the allocation ratios. Examples of these types of events include acquisitions, divestitures, new generation, significant change in asset base, significant staffing changes or new, significant revenue streams.

When these events occur, indirect allocation ratios will be adjusted. When adjusting allocation ratios, it is the policy of BHUH to not recalculate all allocation ratios. Rather, allocation ratios will be adjusted with pro forma adjustments for the subsidiary with a significant change in a specific allocation ratio base. For example, if an acquisition occurs during the middle of the year, pro forma values will be loaded. Asset values at the time of the acquisition would be used, as well as pro forma gross margin and payroll dollars for a 12 month period. It should be noted that estimations may be required, especially when significant additions or changes are expected as a result of the acquisition.

It should also be noted that asset values, gross margin, and payroll dollars for the other companies will not be changed. However, the ratios will change because the base against which the ratios are calculated will change. Operating companies would normally see decreased ratio values with acquisitions, and increased ratio values with divestitures. Changes will be effective as of the beginning of the month following the significant event, and will apply to all transactions for the month.

Subsidiary Payment for Direct and Indirect Charges

It is the policy of BHUH to insure payments are made by the subsidiary companies for direct and indirect charges. All payments for direct and indirect charges must be remitted to BHUH by the end of the following month. BHUH will monitor payments received during the month to insure that all subsidiary companies make payment in a timely manner.

Allocating Fixed Assets

BHUH maintains certain fixed assets that are used by and benefit all operating companies. These fixed assets primarily consist of computer hardware and software and shared office facilities. Because these fixed assets support all operating companies, they are allocated monthly as part of the month-end close process, along with the allocation of these assets' accumulated depreciation. Construction Work in Process balances are not allocated.

Allocated assets and accumulated depreciation are maintained in separate general ledger accounts at the subsidiary level so they are not intermingled with regular subsidiary fixed assets, and for ease of reconciliation.

The allocation ratio used to allocate assets and accumulated depreciation will vary depending on the type of asset being allocated, and will be based on the function the asset is serving. For instance, customer service software is allocated based on the Customer Count Ratio, while general office space is allocated using the Blended Allocator Ratio.

Allocating Capitalized Inventory

The gas and electric meter shops are BHUH departments serving the utility operating companies. As meters are purchased, they are recorded as capitalized inventory (charged to plant-in-service) by BHUH, as the meters are issued out of inventory to the specific operating company those assets are transferred from BHUH to the specific utility operating companies. All unassigned gas and electric meter investment and accumulated depreciation reserve is held at BHUH, and is allocated to the applicable utilities monthly. The Customer Count Ratio is used for this allocation.

Appendix 1- BHUH Departments

The following departments are included in BHUH as of 01/01/2015 and are subject to changes as required to support evolving business requirements.

UHC-GSS ADMINISTRATION (2301)

Description: Provides for the development and execution of the gas supply portfolio plans for all gas distribution operating companies and regulated power plants fueled by natural gas. This plan includes purchasing strategies for the commodity and optimization and procurement of pipeline capacity and services. (Customer Count Ratio)

UHC-ASSETS-LINCOLN CCTR/CAD (4247)

Description: The assets invested for the Computer Aided Dispatch system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to service multiple utilities. Depreciation expense and maintenance expense on this group of assets is also charged from here. (Customer Count Ratio)

UHC-ASSETS-FAME (4251)

Description: The assets invested for the Facilitated Asset Mapping Enterprise system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to serve multiple utilities. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

UHC-ASSETS-WORK MGMT (4257)

Description: The assets invested for the Work Management system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to serve multiple utilities. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

UHC-ASSETS-REG GENERATION (4258)

Description: The assets for electric utilities specifically. This includes capitalized and centrally located hardware and software costs to serve multiple electric utilities. Depreciation expense on this group of assets is also charged from here. (Customer-Regulated)

UHC-BENEFITS LOADINGS (4470)

Description: Utilized for charging out benefits, including medical costs, to the operating departments. Provided that all labor is loaded with overhead loadings, only the residual charges are to the operating companies. (Blended)

UHC-ACCOUNTING ACCRUAL ENTRIES (4474)

Description: Created to facilitate the accrual of certain charges not related to specific departments. (Blended)

UHC-ASSETS-BLENDED-ALL (4478)

Description: The assets invested and centrally located for gas and electric operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

UHC-ASSETS-BLENDED-ELECTRIC (4479)

Description: The assets invested and centrally located for electric operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

UHC-ASSETS-BLENDED-GAS (4480)

Description: The assets invested and centrally located for gas operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

UHC-ASSETS-BLENDED-CUSTOMERS (4481)

Description: The assets invested and centrally located for gas and electric companies where the Customer Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

UHC-DESIGN ENGINEERING GAS (5105)

Description: Provides engineering support of gas transmission and distribution facilities including planning, monitoring, and analyses. (Customer-Regulated)

UHC-STANDARDS AND COMPLIANCE GAS (5106)

Description: Responsible for implementing and reporting DOT regulatory requirements, maintaining standards, and supporting GIS Smallworld mapping. (Customer-Regulated)

UHC-TRANSMISSION PLANNING (5107)

Description: Performs near and long-term (1-20 year) transmission planning to determine cost-effective transmission additions needed to reliably serve projected customer load. Performs studies in support of large customer requests and the FERC Tariff; and supports operational studies for planned outages. Provides support in meeting compliance with NERC Standards; and represents the corporation in regional and sub-regional planning groups. (Transmission)

UHC-NERC COMPLIANCE (5108)

Description: Develops, coordinates and oversees the Electric Utilities Group's compliance with mandatory North American Electric Reliability Corporation (NERC) Reliability Standards, which

standards are enforceable through financial sanctions and are intended to ensure a reliable Bulk Electric System. (Transmission)

UHC-FERC TARIFF AND COMPLIANCE (5109)

Description: Develops, coordinates, and oversees the Electric Utilities Group's compliance with the Federal Energy Regulatory Commission (FERC) requirements pertaining to electric transmission; and administers the Company's Open Access Transmission Tariff (OATT) and Open Access Same-time Information System (OASIS). Administration of the Tariff, which outlines the "rules of the road" for transmission providers, the rates we charge, and the procedures and timelines in addressing customer requests (new load, new generators, or other requests to wheel power across the system). (Transmission)

UHC-T AND D RELIABILITY CTR (5110)

Description: Operates the Company's transmission and distribution systems on a 24/7 basis; and plans and directs switching and outage restoration efforts for both emergency and planned outages. (Transmission)

UHC-NERC TRANSMISSION AND TECH SUPPORT (5111)

Description: Develops, coordinates and oversees the technical support piece of the Electric Utilities Group's compliance with mandatory North American Electric Reliability Corporation (NERC) Reliability Standards, which standards are enforceable through financial sanctions and are intended to ensure a reliable Bulk Electric System. (Transmission)

UHC-TRANSMISSION SERVICES MGMT (5112)

Description: For all three electric utilities (BHP, CLFP and Colorado Electric), Transmission Services directs the 24/7 Reliability Centers in Rapid City and Pueblo, Transmission Planning, NERC Compliance, FERC Compliance, and Transmission Tariff Administration. (Transmission)

UHC-Elec Ops Communications (5117)

Description: Manages and supports the Electric Utilities radio, fiber and microwave based communication needs for the electric operating companies. Provides telecommunication expense management for the electric operating companies. (Blended)

UHC-ELEC ENGINEERING SERV (5120)

Description: Engineering Services supports transmission and distribution activities within the Electric Utilities group including engineering, distribution planning, T and D asset management, metering, substation maintenance, Vegetation Management, GIS/drafting and outage management systems. Provides Director level support to GIS support functions as defined in Dept. 5305 for both the electric and gas network operations. (Blended)

UHC-PWR SUPPLY AND RENEWABLES (5121)

Description: Provides for the planning, development, and management of power supply and renewable strategies for electric operating companies. (Blended)

UHC-REGULATORY SERV (5122)

Description: Supports and manages all electric and gas regulatory filings, rate cases, and regulatory issues. (Blended)

UHC-HR Rotation Program (5125)

Description: Provides a rotation program to develop staff for critical need areas within the utility operating companies of Black Hills Corporation. (Blended)

UHC-Technical Training(5254)

Description: Provides technical training support for gas and electric utilities. (Customer-Regulated)

UHC-GIS SUPPORT (5305)

Description: Researches, builds and implements utility software solutions for the benefit of electric and gas network operations. This department supports Smallworld GIS, STORMS work management, PowerOn outage management, Korterra line locates, and GTViewer mobile maps. (Customer Count Ratio)

UHC-GAS METERING SERV (5490)

Description: Manages and provides gas measurement support to field operations located in gas service states. (Customer-Regulated)

UHC-UTILITY FINANCIAL MGMT (5668)

Description: Assists in the compliance with regulatory and operating unit business strategy from a financial perspective. Responsible for preparation of all phases of the financial planning process including budgets, forecasts and strategic plans. Prepares various operating and financial reports for management. (Blended)

UHC-UTILITY ACCOUNTING (5670)

Description: Responsible for closing the general ledger for the utilities on a monthly basis and assists in the compliance of all accounting rules and regulations. Prepares various operating and financial reports for utility financial management. Assists the utility financial management team with monthly analysis. (Blended)

UHC-EXEC MGMT-CUST SERV (5674)

Description: Provides general direction and supervision of customer service activities. Encourages the safe, efficient and economical use of the utilities services. (Customer Count Ratio)

UHC-EXEC MGMT-UTILITIES (5682)

Description: Provides guidance, direction and management to overall utility operations and support services. (Blended)

UHC-MARKETING (5688)

Description: Provides business and planning services, including marketing. Searches for competitive business opportunities and energy solutions (Blended)

UHC-EXTERNAL AFFAIRS (5690)

Description: Aligns business objectives with the integrated communications provided to our stakeholders. Including: media relations, coordination of community involvement programs, developing and managing a consistent communications program, and leading economic development for community growth (Customer Count Ratio)

UHC-Electric Meter Services (5691)

Description: Manages and provides electric measurement support to field operations located in electric service states. Also manages AMI system for all electric entities. (Customer-Regulated)

UHC-CUSTOMER SERV-LINCOLN (5701)

Description: Answers and resolves customer inquiries, requests for services, for both regulated and non-regulated customers. (Customer Count Ratio)

UHC-CUSTOMER ACCT SERV-OMAHA (5702)

Description: Assists customers with billing, payment and collection issues. (Customer Count Ratio)

UHC-CUSTOMER SERV SUPP (5703)

Description: Provides support to customer services areas through customer information system project management and process control for customer information system changes, revenue assurance analysis, quality analysis, training, and customer and community communication. (Customer Count Ratio)

UHC-CUSTOMER ACCT SERV-RC (5704)

Description: Assists customers with billing, payment and collection issues. (Customer Count Ratio)

UHC-LARGE VOLUME BILLING (5706)

Description: Manages and maintains regulated and non-regulated sales and billing of gas to large volume customers. (Customer Count Ratio)

UHC CS CTR SUPPORT (5707)

Description: Provides direct support to the operations of the two customer service centers in Lincoln and Rapid City. Provides analysis on employee staffing, monitoring service metrics, projects, and planning. (Customer Count Ratio)

UHC-BILL PRINT AND LOCKBOX (5711)

Description: Prepares prints, inserts and mails regulated and non-regulated letters and bills for BHC utility customers. Processes payments for regulated and non-regulated services mailed back to BHC by utility customers. (Customer Count Ratio)

UHC-BILL PROCESSING (5712)

Description: Outside services, supplies and postage expenses required for billing, correspondence, remittance, credit and collection services related to BHC utility customers. (Customer Count Ratio)

UHC-FIELD RESOURCE CTR-LINCOLN (5715)

Description: Plans work, and schedules and dispatches premise service activities to both regulated and non-regulated customers. (Customer Count Ratio)

UHC-FIELD RESOURCE CTR-RC (5717)

Description: Plans work, and schedules and dispatches premise service activities to both regulated and non-regulated customers. (Customer Count Ratio)

UHC-SERV GUARD MARKETING (6005)

Description: Provides and manages product development for consumer marketing with the primary focus on Service Guard (appliance options) a non-regulated business for utility/regulated customers. (Customers-Service Guard)

UHC Gas Engineering Management (6183)

Description: Provides management support to gas engineering and metering activities with emphasis on reliability, customer service, compliance and safety. (Blended)

UHC-TECHNICAL TRN-APPLIANCE (6331)

Description: Designs and implements safety programs and incentives, incident investigation, hazard identification and problem solving, and appliance repair technical skill training, program development and administration of technical-related training for our front-line utility employees supporting Service Guard. (Customers-Service Guard)

UHC-ENERGY SERVICES (6373)

Description: Supports the energy efficiency programs across the utilities supported by BHUC (Customer Count Ratio)

CATCH-ALL

Description: Departments at Black Hills Corporation that are not specifically listed in the CAM or included in the master allocation design that charge BHUH will be allocated using the Blended Allocator Ratio or Customer Count Ratio.

Appendix 2- Allocation Ratios

Any asset ratios and employee and customer count ratios are calculated as of period-end dates, while revenue and expense ratios are calculated for twelve months ended as of period-end dates.

Asset Cost Ratio – Based on the net cost of assets as of December 31 for the prior year, the numerator of which is for an applicable operating company and the denominator of which is all applicable operating companies. Assets are limited to property, plant, and equipment, and include construction or work in process less accumulated depreciation, depletion and amortization (compliance with GAAP).

No departments utilize this ratio, but it is a component in the Blended Ratio.

Gross Margin Ratio – Based on the total gross margin for the prior year ending December 31, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies. Gross margin is defined as revenue less cost of sales. Certain intercompany transactions may be excluded from gross margin if they would not have occurred if the revenue relationship was with a third party instead of a related party.

No departments utilize this ratio, but it is a component in the Blended Ratio.

Payroll Dollar Ratio –Based on the total payroll dollars for the prior year ending December 31, the numerator of which is the direct payroll charges from all BHC subsidiaries charging the for an applicable operating company and the denominator of which is for all applicable operating companies. Payroll dollars include all bonuses and compensation paid to employees, but do not include items that are only included on an employee's W-2 for gross-up and income tax purposes, such as life insurance premiums of \$50,000.

No departments utilize this ratio, but it is a component in the Blended Ratio.

Blended Ratio – A composite ratio comprised of an average of the Asset Cost Ratio, Payroll Dollar Ratio and the Gross Margin Ratio. These factors are equally weighted. This factor is sometimes referred to as the general allocation factor.

There are currently several variations of the Blended ratio that are specific to the segment that are appropriate for which charges are being allocated. For example, charges for electric engineering department labor would utilize an electric blended ratio whereby no allocations would be charged to a gas utility.

As of December 31, 2014 BHUH is utilizing the following segment variations and additional variations may be added if additional product lines are added or in the event that additional segmentation is deemed appropriate to most effectively allocate costs from a specific department

Electric Blended

Gas Blended

BHE Blended

All Regulated Utility Blended

Departments that utilize this ratio include BHUH benefits loading, retiree, BHUH accounting accruals, all blended assets, electric blended assets, gas blended assets, electric engineering services, electric regulatory services, utility margin accounting, utility financial management, utility accounting, utility operations management, utility market services, power supply and renewables, and gas regulatory services.

Any department at Black Hills Corp that appropriately charges a BHUH operating unit but is not part of the predefined allocation design will also utilize the Blended Allocator Ratio. For example if a BHSC IT department provides maintenance on the SCADA system supporting the regulated electric companies they would charge BHUH operating unit 201900 and these costs would be allocated using the Blended Ratio across the regulated electric companies.

Customer Count Ratio – Based on the number of customers at the end of the prior year ending December 31, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

There are currently several variations of the Customer Count ratio that are specific to the type of customers that are appropriate to the department for which charges are being allocated. For example a department that supports gas engineering would be allocated based on gas customers only whereas a general customer service department would be allocated based on total customers.

As of December 31, 2014 BHUH is utilizing the following customer counts to calculate customer count ratios additional variations may be added if additional product lines are added or in the event that additional segmentation of customers are deemed appropriate to most effectively allocate costs from a specific department

Regulated Electric Customers

Regulated Gas Customers

Non-Regulated Customers

Total Customers

Departments that utilize this ratio include gas supply services administration, computer aided dispatch, FAME assets, general assets, work management assets, regulated generation assets, customer blended assets, electric AMI blended assets, gas engineering services, GIS support, general meter shop, customer service management, Lincoln customer service center, Omaha customer account services, Rapid City customer service support, Rapid City customer account services, Rapid City customer service center, large volume billing, customer service center support, bill processing, Lincoln field resource center, Rapid City field resource center, service guard marketing, lockbox & bill-print, and appliance technical training.

Transmission Ratio – Based on a simple average of a multiple of cross-sectional drivers for the transmission function that includes customer counts, peak load, number of substations, number of feeders, number of distribution and transmission miles, and number of remote terminal units. The numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

The departments that utilize this ratio include transmission planning, NERC compliance, FERC tariff and compliance, transmission and distribution reliability, NERC transmission and tech support, and transmission service management.

**BLACK HILLS UTILITY HOLDINGS & SOURCEGAS COMPANIES
JOINT ACQUISITION APPLICATION
APPLICATION NO. NG-0084
RESPONSE TO PUBLIC ADVOCATE'S
FIRST SET OF INFORMATION REQUESTS**

DATE OF REQUEST: September 02, 2015
DATE RESPONSE DUE: September 24, 2015
REQUESTOR: Nebraska Public Advocate
ANSWERED BY: Jerrad S. Hammer
DATE RESPONDED: September 24, 2015
SUBJECT: Affiliates: Policies, Procedures, Agreements

INFORMATION REQUEST PA 1-84:

Please provide any SourceGas policies, procedures, and/or guidelines, including affiliate agreements and codes of conduct, under which SourceGas Distribution has been interacting with its affiliates.

RESPONSE:

As a regulated utility, SourceGas Distribution is subject to various rules respecting its interactions with affiliates. In Nebraska, those rules are set forth in two locations. The first location is the Nebraska Commission's Natural Gas and Pipeline Rules and Regulations promulgated at Title 291 Nebraska Administrative Code, Chapter 9 (see Rule 019). The second location is the Company's approved Nebraska Tariff in the Code of Conduct applicable to the Company in its role as administrator of the Choice Gas Program (see Sheet Nos. 90-92) In addition, the SourceGas Cost Assignment and Allocation Manual deals with the treatment of transactions between affiliate Company's. The Cost Assignment and Allocation Manual is attached as NE PA_1-84 SourceGas CAAM.

ATTACHMENTS:

NE PA_1-84 SourceGas CAAM

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-51
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **October 5, 2015**
DATE RESPONDED : **October 5, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-83:

Please indicate those companies within the Black Hills family of companies (besides the Black Hills Service Company) that are expected to have transactional interaction with Black Hills Gas Distribution (formerly, SourceGas Distribution).

RESPONSE:

The operating divisions within Black Hills Gas Distribution will have transactional interaction with BHSC and BHUH and due to the nature of the utility business and the proximity of the current Black Hills utilities, circumstances may exist where the operating utilities may have transactional interaction between themselves. In addition, please see response PA-80.

ATTACHMENTS: None.

Response provided by:

Kyle White

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-52
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-87:

Please describe any expected transactional relationship between Black Hills Gas Distribution (formerly, SourceGas Distribution) and Black Hills Non-Regulated Holdings, LLC.

RESPONSE:

Black Hills has no agreements that fall under this response.

ATTACHMENTS: None

Response provided by:

Kyle White

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**

DATE RESPONSE DUE : **October 2, 2015**

DATE RESPONDED : **October 2, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Kyle White**

SUBJECT :

REQUEST NO. PA-89:

With respect to the above-mentioned promises, conditions or commitments, please identify and provide each document for each Black Hills company that includes a tracking of the extent to which such a promise, condition, or commitment has been satisfied or implemented. Identify which are still in effect.

BHUH RESPONSE: Objection: BHUH objects to this request to the extent that it is overly broad and vague, imposes an administrative burden on BHUH to produce, is voluminous, or seeks information that is not relevant to Nebraska nor is likely to lead to relevant information.

Without waiving or limiting its objection, BHUH responds as follows:

As for tracking Commission acquisition conditions, Black Hills does not maintain a single report that tracks the numerous requirements set forth in the various Commission orders.

Instead, Black Hills Energy - Nebraska or other regulated utility business units of Black Hills have complied with applicable acquisition-related regulatory requirements. In addition after the close of the various transactions and approval by various Commissions, Black Hills integrated the Commission's acquisition-approval compliance requirements through rate or regulatory proceedings, or otherwise adopted and integrated those requirements into ongoing business policies and practices. Thus, no such document requested exists in the form requested.

In addition, Black Hills is a publicly traded company and subject to numerous filings with the Securities and Exchange Commission. Black Hills Energy - Nebraska is a Jurisdictional Utility in Nebraska it is subject to ongoing review through rate or Gas Cost Adjustment reconciliation proceedings and Annual Reports filed with the Commission. See, e.g., Nebraska PSC Docket Nos. NG-0044, NG-0061 and NG-0066.

ATTACHMENTS: None.

Response provided by:

Kyle White - BHUH

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-54
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 28, 2015**
DATE RESPONDED : **September 28, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-91:

Please provide any Company-developed, FERC-required or other regulatory body required documentation regarding competition. Please include (without limiting to) any and all

- a. Detailed and appropriate tests of horizontal market power in the relevant markets
- b. Descriptions and/or demonstrations of how the utility's monopoly systems will provide adequate access to competitors and not result in any vertical market power
- c. Expected impacts to any of the joint applicants' vertical or horizontal market power
- d. Proposed appropriate asset divestiture or other remedies in the event of either vertical or horizontal market power

BHUH RESPONSE:

None. There are no FERC or other regulatory-required documentation requirements regarding competition for regulated local gas distribution utilities.

ATTACHMENTS: None

SG RESPONSE:

SourceGas has no documents in its possession, custody, or control responsive to Information Request PA 1-91.

SG ATTACHMENTS: None

Response provided by:

Ivan Vancas-BHUH
Legal - SG

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-55
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-93:

Please explain polices that are currently implemented or will be implemented as the result of the merger to avoid or remedy any market power issues.

RESPONSE:

None. The transaction received approval under Hart-Scott-Rodino.

ATTACHMENTS: None

Response provided by:

Patrick Joyce

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **September 18, 2015**
DATE RESPONDED : **September 18, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-94:

Please explain and quantify any negative impact the merger will have on retail competition in Nebraska. Please provide all workpapers in electronic format including all links and formulas and source documents used to quantify the results.

RESPONSE:

Objection. Joint Applicants object to this request to the extent that it is overly broad and vague. In addition Joint Applicants object to this request to the extent that it calls for studies or analysis that do not currently exist.

Without waiving or limiting its objection in any manner, Joint Applicants provide the link below to the Federal Trade Commission's August 18, 2015 announcement that it granted the early termination period under the Hart Scott-Rodino Antitrust Improvements Act for the proposed acquisition of SourceGas Holdings LLC.

<https://www.ftc.gov/enforcement/premerger-notification-program/early-termination-notices/20151461> .

ATTACHMENTS:

None.

Response provided by:

Kyle White

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-57
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September 2, 2015**
DATE RESPONSE DUE : **October 7, 2015**
DATE RESPONDED : **October 7, 2015**
REQUESTING PARTY : **Nebraska Public Advocate**
WITNESS : **Kyle White**
SUBJECT :

REQUEST NO. PA-92:

Please explain and quantify Joint Applicants' view of all risks that Nebraska ratepayers face due to Black Hills and SourceGas' decision to merge.

RESPONSE: Objection: BHUH objects to this request to the extent that it calls for speculation, is overly broad and vague, imposes an administrative burden on BHUH to produce, is voluminous, or seeks information that is not relevant to Nebraska nor is likely to lead to relevant information.

Without waiving or limiting its objection, BHUH responds as follows:

To clarify, BHUH is acquiring SourceGas Holdings. Thus, this transaction is not legally viewed as a merger. The risks to Nebraska ratepayers due to any acquisition can vary due to a variety of factors. BHUH anticipates that the risks to Nebraska ratepayers will not be any greater than those faced currently. BHUH further anticipates that the benefits to Nebraska customers will outweigh the risks that are inherent with this transaction.

While Black Hills believes the risks that customers may face are minimal, Black Hills acknowledges that as with any acquisition of this size there are integration risks related to the methods of operations, marketing, or financial strategies.

ATTACHMENTS: None.

Response provided by:

Kyle White - BHUH

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-58
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September , 2015**

DATE RESPONSE DUE : **September , 2015**

DATE RESPONDED : **2015**

REQUESTING PARTY : **Public Alliance for Community Energy**

WITNESS : **Kyle White**

SUBJECT :

REQUEST NO. ACE-2:

Will the Nebraska Choice Gas Program be retained by Black Hills Energy for the 2016-17 and 2017-18 gas years, in the format as currently exists with SourceGas?

RESPONSE: Objection. BHUH objects to this request to the extent that it seeks information that is not relevant nor will likely lead to relevant information. BHUH objects to this request to the extent that it requires BHUH to prepare analysis or reports, perform studies, or produce information that does not currently exist. BHUH objects to this request to the extent that it seeks legal opinion, privileged attorney work-product, or privileged attorney client communications.

Without waiving or limiting its objection, BHUH responds as follows:

As is the case with SourceGas, BHUH also believes it is prudent to review the success of the program after each program year. While BHUH expects the program to continue through the 2016-2017 program year, an annual evaluation subsequent to each program year is necessary to determine if the program should be retained going forward. Please see the response to ACE-1.

ATTACHMENTS: None

Response provided by:

Kyle White

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-59
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September , 2015**

DATE RESPONSE DUE : **September , 2015**

DATE RESPONDED : **2015**

REQUESTING PARTY : **Public Alliance for Community Energy**

WITNESS : **Kyle White**

SUBJECT :

REQUEST NO. ACE-5:

Has Black Hills considered offering a consumer choice program in existing service areas in Nebraska, or expanding the Nebraska Choice Gas Program into those areas in the future?

RESPONSE: Objection. BHUH objects to this request to the extent that it seeks information that is not relevant nor will likely lead to relevant information. BHUH objects to this request to the extent that it requires BHUH to prepare analysis or reports, perform studies, or produce information that does not currently exist. BHUH objects to this request to the extent that it seeks legal opinion, privileged attorney work-product, or privileged attorney client communications.

Without waiving or limiting its objection, BHUH responds as follows:

Yes. Black Hills/Nebraska Gas Utility Company, LLC will not be expanding the Nebraska Choice Gas Program of Black Hills Distribution Company into additional areas of Nebraska after the close of the transaction.

ATTACHMENTS: None.

Response provided by:

Kyle White

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-60
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September , 2015**

DATE RESPONSE DUE : **September , 2015**

DATE RESPONDED : **2015**

REQUESTING PARTY : **Public Alliance for Community Energy**

WITNESS :

SUBJECT :

REQUEST NO. ACE-4:

Please explain and quantify Black Hills experience in consumer choice programs and working with competitive suppliers.

RESPONSE: Objection. BHUH objects to this request to the extent that it seeks information that is not relevant nor will likely lead to relevant information. BHUH objects to this request to the extent that it requires BHUH to prepare analysis or reports, perform studies, or produce information that does not currently exist. BHUH objects to this request to the extent that it seeks legal opinion, privileged attorney work-product, or privileged attorney client communications.

Without waiving or limiting its objection, BHUH responds as follows:

Black Hills/Nebraska Gas Utility Company, LLC ("Black Hills Energy-Nebraska") offers its customers a consumer choice program entitled "Annual Price Option" (hereafter "APO"). Under the APO program, residential customers are able to enroll in a program that locks in a natural gas price.

Black Hills Energy - Nebraska also offers its qualifying commercial customers the opportunity to choose a Competitive Natural Gas Provider through Black Hills Energy - Nebraska's "Energy Options" program.

Both of the above programs are regulated by the Nebraska Public Service Commission.

Finally, Black Hills Energy provides transportation services to its High Volume customers under negotiated contracts pursuant to the State Natural Gas Regulation Act.

ATTACHMENTS: None.

Response provided by:

Bob Amdor

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

Docket No. NG-0084
Exhibit No. DHM-61
Page 1 of 1

RESPONSE OF JOINT APPLICANTS TO
FIRST SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **September , 2015**

DATE RESPONSE DUE : **September , 2015**

DATE RESPONDED : **2015**

REQUESTING PARTY : **Public Alliance for Community Energy**

WITNESS : **Kyle White**

SUBJECT :

REQUEST NO. ACE-8:

Black Hills has indicated a future intent to seek approval for a new Cost of Service Gas program. Do you anticipate such a filing, and when? Please describe how this program will impact customers, whether it will be offered in conjunction with the Choice Gas program, and differences between the two programs.

RESPONSE: Objection. BHUH objects to this request to the extent that it seeks information that is not relevant nor will likely lead to relevant information. BHUH objects to this request to the extent that it requires BHUH to prepare analysis or reports, perform studies, or produce information that does not currently exist. BHUH objects to this request to the extent that it seeks legal opinion, privileged attorney work-product, or privileged attorney client communications.

Without waiving or limiting its objection, BHUH responds as follows:

Yes. BHUH anticipates filing an application soon for its proposed Cost of Service Gas program in Nebraska.

BHUH believes that its Cost of Service Gas program will benefit customers in Nebraska.

No. The Cost of Service Gas Program will not include a Nebraska Gas Choice program.

BHUH has not yet acquired SourceGas, and is in the beginning stages of its review of SourceGas programs. No such detailed study of the differences between the two programs will be completed until after (1) the approval of the Cost of Service Gas Program by the Nebraska Public Service Commission and (2) the close of the SourceGas transaction. However, the Cost of Service Gas Program is a long-term gas supply hedging program. The SourceGas Distribution "Nebraska Gas Choice Program" is a residential supplier choice program which typically provides a shorter term hedge.

ATTACHMENTS: None.

Response provided by:

Kyle White.

BLACK HILLS ENERGY
APPLICATION NO. NG-0084

RESPONSE OF JOINT APPLICANTS TO
SECOND SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE

DATE OF REQUEST : **October 2, 2015**

DATE RESPONSE DUE : **October 16, 2015**

DATE RESPONDED : **October 15, 2015**

REQUESTING PARTY : **Nebraska Public Advocate**

WITNESS : **Linn Evans-BHUH**

REQUEST NO. PA-130:

Regarding any conservation or environmental protection programs:

- a. Please provide the philosophy and activity of each Company regarding conservation and the preservation of environment quality.
- b. Please compare and contrast the programs in place for each company.
- c. Please describe any changes that are expected to be made and why.

BHUH RESPONSE:

a. Black Hills is committed to providing safe, reliable and affordable energy in a manner that protects the environment and the interests of its stakeholders. Black Hills implements this environmental philosophy according to its code of ethics and its integrated environmental management plan. Implementation of this philosophy includes the following activities:

- Complying with environmental standards to provide the resources required to meet this goal and to foster a culture of environmental stewardship.
- Operating in a manner that ensures Black Hills meets or surpasses applicable environmental rules and regulations. Black Hills monitors its operations to cost-effectively meet requirements and minimize risk and liability.
- Training operations employees to understand environmental compliance requirements related to their job duties.
- Providing regular reports to Senior Management and Black Hills' Board of Directors regarding the status of environmental compliance, issues and initiatives.
- Participating in the development of new technologies that support environmental efforts and provide stakeholder value.
- Working with policy makers to ensure that they have access to the best technical, scientific and economic information to develop public policy that protects the environment as well as customers' and shareholders' interests.
- Working closely with state and federal agencies to comply with environmental laws, regulations and standards.

**RESPONSE OF JOINT APPLICANTS TO
SECOND SET OF DATA REQUESTS OF THE PUBLIC ADVOCATE**

Black Hills believes responsible energy development requires a commitment to environmental stewardship as well as consideration of customer impacts, shareholder interests and responsible natural resource development. Black Hills employs the proper environmental technologies to reliably, responsibly and cost-effectively meet its customers' energy needs.

b. BHUH has not performed a comparison of Black Hills' conservation or environmental protection programs with those of SourceGas. If the acquisition is approved, conservation or environmental protection activities for the newly acquired utilities will be managed in a manner that is consistent with Black Hills' current philosophies and administered in a manner that is consistent with Black Hills' current programs.

c. BHUH has not made a determination regarding specific changes that may be made following the acquisition of the newly acquired utilities' conservation or environmental programs. However, BHUH believes that it may be necessary to modify SourceGas' filing and compliance tracking system to make it compatible with BHUH's system.

BHUH ATTACHMENTS: None.

SG RESPONSE:

SourceGas' environmental management system builds environmental compliance into the planning, construction, operation, and closure of the company's facilities. The Environmental Services Department provides full-service support to our divisions with environmental planning, permitting, and compliance. SourceGas' environmental management system is designed to provide a framework for all SourceGas personnel to comply with environmental requirements and to access the support and guidance of the Environmental Services team. The framework also provides the flexibility necessary for continuous improvement. Elements of the environmental management system include procedures manuals, database and spreadsheets, and processes. This approach facilitates compliance with applicable federal, state, and local laws, regulations and ordinances.

SG ATTACHMENTS: None.

Response provided by:

Fred Carl - BHUH

Michelle Moorman Applegate - SG

THIS EXHIBIT IS
CONFIDENTIAL OR
HIGHLY CONFIDENTIAL
AND HAS BEEN
REDACTED

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE JOINT APPLICATION)
OF SOURCEGAS DISTRIBUTION LLC,)
SOURCEGAS LLC, SOURCEGAS HOLDINGS LLC,)
AND BLACK HILLS UTILITY HOLDINGS, INC.)
FOR ALL NECESSARY AUTHORIZATIONS AND)
APPROVALS FOR BLACK HILLS UTILITY)
HOLDINGS, INC. TO ACQUIRE SOURCEGAS)
HOLDINGS LLC)

DOCKET NO. NG-0084

STATE OF SOUTH CAROLINA)
COUNTY OF GREENVILLE)

Affidavit Adopting
Direct Testimony

Donna H. Mullinax being first duly sworn on oath, states that she is the Donna H. Mullinax whose Direct Testimony in the above-captioned proceeding accompanies this Affidavit.

Donna H. Mullinax further states that such Direct Testimony is a true and accurate statement of her answers to the questions contained therein, and that she does adopt those answers as her own Testimony in this proceeding.

Donna H. Mullinax
Donna H. Mullinax

On the 5 day of November, 2015, before me, the undersigned, a Notary Public commissioned and qualified for in said County, personally came Donna H. Mullinax, to me known to be the identical person whose names are affixed to the foregoing Testimony and acknowledged the execution thereof to be her voluntary act and deed.

WITNESS my hand and Notary Seal the day and year last above written.

Shauna Pelfrey
Notary Public
My Commission Expires: _____

My Commission Expires
April 23, 2023

