BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	**)**	
OF BLACK HILLS NEBRASKA GAS, LLC,	**)**	
D/B/A BLACK HILLS ENERGY, RAPID	**)**	**APPLICATION NO. NG-124**
CITY, SOUTH DAKOTA, SEEKING	**)**	
APPROVAL OF A GENERAL RATE	**)**	
INCREASE	**)**	

DIRECT TESTIMONY OF SAMANTHA K. JOHNSON

Director of Regulatory

ON BEHALF OF BLACK HILLS NEBRASKA GAS, LLC

Date: May 1, 2025

TABLE OF CONTENTS

EXHIBITS

Application Exhibits	
Section 1, Rule 004.02C	Financial Summary Revenue Requirement Study (Statement B)
Section 1, Rule 004.02E	Financial Statements Revenue Requirement Study (BS, IS, RE)
Section 3, Rule 004.02A-G	Operating Expense Schedules
Section 4, Rule 004.05A-B	Rate of Return and Cost of Capital Schedules
Testimony Exhibits	
Section 3, Rule 004.04A	Operating Expense Schedules – Base and Test Year Revenue Requirement Study (Statement H)
Section 4, Rule 004.05	Rate of Return and Cost of Capital Schedules (Revenue Requirement Study (Statement G and G-1)
Section 3, Rule 004.04B	Legislative Advocacy
Section 3, Rule 004.04C	Political Candidate Schedules
Section 3, Rule 004.04D	Political or Religious Causes
Section 3, Rule 004.04E	Membership Lists
Section 3, Rule 004.04F	Affiliate Transactions
Section 3, Rule 004.04G	BHSC CAM as of December 20, 2024
Testimony Exhibits	
Direct Exhibit SKJ-1	Statement of Qualifications
Direct Exhibit SKJ-2	Revenue Requirement Study (Application Exhibit No. 1, Section 2 – Various Exhibits)
Direct Exhibit SKJ-3	BHSC CAM Amended December 20, 2023
Direct Exhibit SKJ-4	BHSC CAM Amended June 30, 2024
Direct Exhibit SKJ-5	BHSC CAM Amended December 20, 2024

TABLE OF ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
ADIT	Accumulated Deferred Income Tax
AIP	Annual Incentive Pay
Base Year	Twelve (12) months beginning on January 1, 2024, and ending on December 31, 2024
BHC	Black Hills Corporation
BH Nebraska Gas or Company	Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
BHSC	Black Hills Service Company, LLC
BHUH	Black Hills Utility Holdings, Inc.
BS	Balance Sheet
CAM	BHSC Cost Allocation Manual
Commission	Nebraska Public Service Commission
Company	Black Hills Nebraska Gas, LLC
CWC	Cash Working Capital
DIIP	Data Infrastructure Improvement Program
EDIT	Excess Deferred Income Tax
FERC	Federal Energy Regulatory Commission
FICA	Federal Insurance Contributions Act
FUTA	Federal Unemployment Tax Act
IS	Income Statement
LTIP	Long-Term Incentive Plan
MGP	Manufactured Gas Plant

O&M	Operations & Maintenance
PUHCA	Public Utility Holding Company Act of 2005
ROE	Return on Equity
RRS	Revenue Requirement Study
SSIR	System Safety and Integrity Rider
STIP	Short-Term Incentive Plan
SUTA	State Unemployed Tax Act
Test Year	Twelve months beginning on January 1, 2025, and ending December 31, 2025, applying adjustments for known and measurable changes
TOTI	Taxes Other than Federal Income Tax
WACC	Weighted Average Cost of Capital
WNA	Weather Normalization Adjustment

DIRECT TESTIMONY OF SAMANTHA K. JOHNSON

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Samantha K. Johnson. My business address is 7001 Mount Rushmore Rd, Rapid City, South Dakota 57702.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Black Hills Service Company, LLC (“BHSC”). My position is Director of Regulatory.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy (“BH Nebraska Gas” or “the Company”).

II. STATEMENT OF QUALIFICATIONS

Q. WILL YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE?

A. My education, employment history, and professional experience are provided in Direct Exhibit SKJ-1.

Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. As Director of Regulatory, I am responsible for managing the Revenue Requirements group and providing oversight and technical expertise for cost-of-service studies, revenue requirement calculations, Federal Energy Regulatory Commission (“FERC”) formula rates, and regulatory reporting. I lead a team of managers and analysts responsible for various financial and revenue requirement analysis in support of Black Hills Corporation's ("BHC") utility subsidiaries in multiple states and jurisdictions.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. No.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY BODIES?

A. Yes, I have provided testimony in Wyoming, Iowa, and Colorado. Additionally, as provided in Direct Exhibit SKJ-1, I have also prepared, filed, or participated in rate applications, testimony, testimony exhibits, data responses, settlement conferences, hearings, and other regulatory proceedings for various subsidiaries of BHC.

III. <u>PURPOSE OF TESTIMONY</u>

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide support for the following areas:

A. <u>Revenue Requirement Study</u>

I sponsor the Revenue Requirement Study ("RRS") for BH Nebraska Gas in this proceeding. The Proposed RRS, which is included as Direct Exhibit SKJ-2, is presented by the Company in support of the revenue requested in this proceeding and is the primary focus of my direct testimony. I introduce and describe each of the statements and schedules contained within the RRS model and explain the reasoning behind the various known and measurable and other *pro forma* adjustments to the Company's per-book investments, expenses, and revenues and how those adjustments are reflected within the RRS. The RRS also establishes the cost basis for the Company's structure and design of its proposed base rates.

B. Adjustments

My testimony discusses the reasoning behind the various adjustments made within the Rate Review Application to expenses and revenues. The testimony explains how those adjustments are reflected within the RRS.

C. Affiliate Transactions

My testimony confirms that Shared Resources Affiliate (i.e. BHSC), as well as any other Affiliate transactions included in the RRS complies with Commission Rule 005.07.[1] Affiliate transactions are detailed in Application Exhibit No. 1, Section 3, Rule 004.04F.[2]

D. Cost Allocation Manual

My testimony supports the costs allocated by BHSC to BH Nebraska Gas under the Cost Allocation Manual ("CAM"). The current BHSC CAM is provided with this testimony as Application Exhibit No. 1, Section 3, Rule 004.04G.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes. I am sponsoring information in several sections of Application Exhibit No. 1 that has the information required by Rule 004 of the Nebraska Public Service Commission ("Commission") Rules and Regulations.[3] Much of the information required by the Commission Rule 004 is contained within the RRS, which is identified as Direct Exhibit SKJ-2. With respect to Commission's Rule 004

[1] *291 Neb. Admin. Code. Ch. 9. Rule 005.07.*
[2] In accordance with the Commission Rules and Regulations, Resource Affiliate Transactions are not included within this Exhibit. Those transactions flow through the applicable CAM.
[3] *291 Neb. Admin. Code. Ch. 9, Rule 004 (General Rate Filings).*

requirements, each of the Exhibits I sponsor related to sections of Application Exhibit No. 1 are listed in the Exhibit table above.

Q. HAVE THE TESTIMONY AND EXHIBITS THAT YOU ARE SPONSORING BEEN PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. However, Application Exhibit No. 1, Section 3, Rule 004.04F and Direct Exhibit SKJ-3 (2024 BHSC CAM), Direct Exhibit SKJ-4 (2024 BHSC CAM – Amended June 2024), and Direct Exhibit SKJ-5 (2025 CAM) are the product of a multifunctional committee of Subject Matter Experts (SMEs) from BHC subsidiaries. I was a member of that multifunctional committee that reviews and updates the CAM.

IV. THE REVENUE REQUIREMENT STUDY

Q. WHERE DOES BH NEBRASKA GAS PROVIDE THE RRS WITHIN THE RATE REVIEW APPLICATION?

A. The RRS is designated as Direct Exhibit SKJ-2. In compliance with the Commission's Rules and Regulations, various statements or schedules from the RRS by BH Nebraska Gas are duplicated or otherwise referenced in Application Exhibits to provide the information required by the Commission's General Rate Filing Rules and Regulations.[4]

Q. PLEASE SUMMARIZE THE RESULTS OF THE RRS.

A. The RRS calculates a jurisdictional revenue requirement for base rate revenues of $180,108,135, which represents a revenue increase of $34,923,246 as summarized

[4] *291 Neb. Admin. Code. Ch. 9, Rule 004.*

in Statement A of Hearing Exhibit SKJ-2. This is based on the proposed return on equity (“ROE”) of 10.5%, a cost of long-term debt of 4.71%, and a capital structure of 50.52% equity, 49.48% debt, resulting in a weighted average cost of capital (“WACC”) of 7.63%.

Q. WHAT COST IS THE COMPANY PROPOSING TO RECOVER THROUGH BASE RATES THAT ARE CURRENTLY RECOVERED THROUGH OTHER COST RECOVERY MECHANISMS?

A. As discussed in more detail by Ms. Bannan, the Company is proposing to include the investments and expenses, other than Data Infrastructure Improvement Program (“DIIP) expenses, which are recovered outside of base rates, currently being recovered through the System Safety and Integrity Rider (“SSIR”) in base rates, which is commonly referred to as a “roll-in.”

Q. WHAT IS THE PURPOSE OF AN RRS?

A. An RRS is an analysis tool used to determine the revenues required to recover costs incurred by a public utility to provide service to its customers and to provide investors with an opportunity to earn a reasonable return. The costs to be recovered include the allocated and directly charged expenses incurred to operate and maintain facilities, administrative costs to oversee operations, and capital costs necessary to service the utility’s debt and to provide investors with a return. In summary, the formula is:

Revenue Requirement = E + r (RB)

Where:

E = Expenses = O + D + T

O = Operating expenses, including wages and salaries, administrative expenses, taxes other than income taxes, fuel costs, and various maintenance expenses

D = Annual depreciation expenses

T = Income taxes (state and federal)

r = Rate of return (return on bonds, preferred stock, and common stock (equity))

RB = Rate base = v-d

v = (1) Plant In-Service costs plus

(2) Working capital (cash working capital + materials and supplies)

d = Accumulated depreciation, accumulated deferred income taxes and other rate base items

Operating Expense categories include operating, maintenance, administrative, general, property tax, sales tax, payroll tax, state and federal income tax, depreciation, and amortization. The rate base consists of net plant investment (gross plant less accumulated provision for depreciation), working capital, including cash working capital ("CWC"), accumulated deferred income taxes ("ADIT"), and net excess deferred income taxes ("EDIT"). The return on rate base is calculated using the WACC, which includes a weighting of the cost of long-term debt and equity. The WACC is multiplied by the calculated rate base to yield the total amount of required earnings. The RRS indicates the overall level of revenues necessary to earn the authorized return, which is then used in setting base rates.

The resulting calculation, the Revenue Requirement, is the amount BH Nebraska Gas collects from customers to recover its costs and provide a reasonable return to investors.

Q. HOW WAS THE REVENUE REQUIREMENT STUDY DEVELOPED FOR THIS RATE REVIEW?

A. The RRS starts with the Company's per book, or unadjusted, financial statements for the 12 months ending December 31, 2024 ("Base Year"), as reflected in Tabs BS, IS, and RE of the RRS, prepared in accordance with the FERC Uniform System of Accounts.

Direct Exhibit SKJ-2 is the RRS which adjusts the consolidated Base Year data to include *pro forma* adjustments to calculate the proposed revenue requirement for the 12 months ending December 31, 2025 ("Test Year") in this proceeding. In developing an RRS, accounting adjustments are made to add or remove certain accounts and expense transactions in the calculation of the revenue requirement. Regulatory adjustments are necessary to comply with rate recovery policies established through Commission orders in prior rate proceedings, rules, and law. Known and measurable and other *pro forma* adjustments are made to reflect future conditions at the time when new rates will be effective.

Table SKJ-1 below shows each statement supplied within the RRS (Direct Exhibit SKJ-2):

Table SKJ-1 – List of RRS Model Statements

List of RRS Model Statements	
Stmt A	Calculation of Revenue Deficiency
Stmt B	Overall Cost of Service
Stmt C	Other Rate Base Items
Stmt D	Adjusted Plant in Service
Stmt E	Adjusted Accumulated Depreciation
Stmt F	Working Capital
Stmt G	Cost of Capital - *Pro Forma*
Stmt H	Operating and Maintenance Expenses
Stmt I	Operating Revenue
Stmt J	Depreciation & Amortization Expense
Stmt K	Computation of Federal Income Tax
Stmt L	Taxes Other than Federal Income Tax
Stmt M	Per Book and *Pro Forma* Adjusted Revenue Requirement Analysis
BS pg 1	Balance Sheet - Assets and Other Debits
BS pg 2	Balance Sheet - Liabilities and Other Credits
IS	Income Statement
RE	Retained Earnings Statement

Q. PLEASE EXPLAIN HOW THE STATEMENTS AND SCHEDULES INCLUDED IN THE REVENUE REQUIREMENT STUDY SUPPORT THE PROPOSED REVENUE REQUIREMENT.

A. Adjustments to rate base are shown in Statements C, D, E, and F. Expense adjustments are reflected in Statements H, J, K and L. Revenue adjustments are shown in Statement I. Starting with Statement C, the RRS statements present summary level financial information used to calculate the revenue requirement with the supporting schedules providing the details of each section.

Statements C through L within the RRS support the revenue requirement summary in Statement B. Statement A of the RRS calculates the revenue deficiency based upon inputs from the previous statements. The revenue deficiency is the amount by which the base rate revenues need to be increased to recover the costs to operate, maintain, and manage the utility while providing BH Nebraska Gas with a reasonable opportunity to earn its authorized rate of return.

The schedules within the RRS provide detailed information and are used to support the statements throughout the RRS. For example, Statement H of the RRS summarizes a list of adjustments to the revenue requirement. Each adjustment is referenced by a corresponding schedule and explained separately in either my direct testimony or the direct testimony of Ms. Lori J. Mack.

Other RRS schedules, such as Schedule D-1, present detailed information necessary for use in the Class Cost of Service Study.

RRS Statement M summarizes the detailed schedules to present the details that Mr. Hyatt uses to calculate the Class Cost of Service Study presented in his direct testimony.[5]

The Class Cost of Service Study determines the jurisdictional revenue deficiency at issue in this proceeding. The results of the jurisdictional revenue deficiency from the Class Cost of Service Study are summarized on Statement B Page 2.

Q. PLEASE SUMMARIZE THE REVENUE REQUIREMENT BEING REQUESTED BY THE COMPANY.

A. Table SJK-2 below summarizes the total revenue requirement and rate increase being requested in this proceeding.

[5] See Testimony of Mr. Hyatt Direct Exhibits DNH-3, DNH-4, DNH-5, and DNH-6.

Table SKJ-2 – Jurisdictional Revenue Requirement

Description	Jurisdictional
Total Adjusted Rate Base	$785,247,119
Rate of Return	7.63%
Return	**$59,914,355**
Operations & Maintenance	68,808,905
Depreciation/Amortization	36,047,454
Taxes Other Than Income	10,155,504
FIT - Existing Rates	2,232,866
Other Operating Revenue	(5,485,646)
Total Cost of Service	**$171,673,438**
Revenue Under Existing Rates	145,184,890
Increase/(Decrease) Before Taxes	**$26,488,548**
Combined Tax Rate	24.15%
Revenue Deficiency / (Excess) After Tax Gross up	**$34,923,246**
Total Revenue Requirement after Tax Gross up	**$180,108,135**

V. RATE BASE

Q. PLEASE DESCRIBE THE RATE BASE USED IN THE REVENUE REQUIREMENT STUDY.

A. Rate base is the value of invested capital, including all items used to provide utility service. Rate base represents the investor-financed plant facilities and other investments required in providing utility service to customers. The rate base components and calculations are discussed in the Direct Testimony of Ms. Mack.

VI. COST OF CAPITAL

Q. WHAT IS THE PROPOSED CAPITAL STRUCTURE AND RATE OF RETURN INCLUDED IN THE COST OF SERVICE CALCULATION?

A. The proposed capital structure as presented on Statement G and included in the RRS calculation is 50.52% equity and 49.48% debt, as discussed in the Direct Testimony of Mr. Stevens. Based on the proposed return on equity of 10.5%, as discussed in the Direct Testimony of Mr. McKenzie, and the cost of long-term debt of 4.71%, as discussed in the Direct Testimony of Mr. Stevens, the resulting WACC requested by the Company is 7.63%, as shown below in Table SKJ-3.

Table SKJ-3 – Requested WACC

Current Test Year	Capital Structure	Cost of Debt/Equity	Weighted Cost
Long-Term Debt	49.48%	4.71%	2.33%
Common Equity	50.52%	10.50%	5.30%
Rate of Return	**100.00%**		**7.63%**

VII. OPERATING EXPENSES

Q. WHAT ARE OPERATING EXPENSES?

A. Operating expenses are costs associated with the operation, maintenance, and administration of BH Nebraska Gas' utility business on a day-to-day basis to provide service to BH Nebraska Gas customers. In the development of the revenue requirement, operating costs are passed on to customers dollar-for-dollar. In other words, BH Nebraska Gas does not earn a return on these expenses but receives a pass-through cost recovery.

Q. PLEASE EXPLAIN HOW THE STATEMENTS AND SCHEDULES CONTAINED IN THE RRS SUPPORT THE EXPENSE AMOUNTS PRESENTED IN THIS CASE.

A. Tab IS of Direct Exhibit SKJ-2 (i.e., Revenue Requirement Study) shows the income statement as of December 31, 2024. Direct Exhibit SKJ-2, Statement H details the per book Operations and Maintenance ("O&M") expenses provided on Direct Exhibit SKJ-2, Tab IS by FERC account and provides a summary of the adjustments and adjusted totals to show the amounts used to calculate the revenue requirement on Direct Exhibit SKJ-2, Statement B. Depreciation and amortization expense is detailed on Statement J, which shows the *pro forma* adjustments and calculates adjusted depreciation and amortization totals. Taxes other than income are detailed on Statement L, which shows the *pro forma* adjustments and calculates adjusted taxes other than income total amounts. Income tax calculations are shown on Statement K, which details the income tax expense, permanent and temporary differences, and total deferred income tax expense. All the adjusted total amounts are included in the calculation of the revenue requirement on Statement B.

A. Lobbying, Political Promotion and Religious Contributions

Q. **DOES THE COMPANY SEEK RECOVERY OF ANY LOBBYING, POLITICAL PROMOTION, OR CONTRIBUTIONS TO RELIGIOUS ORGANIZATIONS IN ITS REVENUE REQUIREMENT?**

A. No. Those costs are booked below the line, or in Non-Utility Operating Income and Expense and reported in Exhibit SKJ-2, Tab IS Line 27 These costs are not included in the O&M accounts or as any component of RRS. BH Nebraska Gas complies with Commission Rules 004.04B, 004.04C, and 004.04D by omitting funds expended for legislative advocacy, political and religious contributions.[6]

B. Operation & Maintenance Adjustments

Q. PLEASE LIST THE ADJUSTMENTS MADE TO THE PER BOOK O&M EXPENSES.

A. See Table SKJ-4 below for the listing of the O&M adjustments:

Table SKJ-4 – O&M Adjustments

O&M Adjustments	
Schedule H - 1	Out of Period and Atypical Accounting Adjustments
Schedule H - 2	Removal of Advertising Expense
Schedule H - 3	Removal of Dues and Contributions Expense
Schedule H - 4	Removal of Gas Costs Recovered through the PGA
Schedule H - 5	Adjustment for Annualization of Direct Employee Expenses
Schedule H - 6	Pension and Retiree Healthcare Expense Adjustment
Schedule H - 7	Intercompany Allocated Charges from BHSC Expense Adjustment
Schedule H - 8	Bad Debt Adjustment
Schedule H - 9	Alternative Forms of Payment Adjustment
Schedule H - 10	Fleet Depreciation Expense Adjustment
Schedule H - 11	Removal of DIIP Expenses
Schedule H - 12	Public Awareness Campaign Adjustment
Schedule H - 13	Removal of Heat Program Admin Costs

[6] See Application Exhibit No. 1, Section 2.

Q. PLEASE EXPLAIN THE OUT OF PERIOD AND ATYPICAL EXPENSE ADJUSTMENT ON DIRECT EXHIBIT SKJ-2, SCHEDULE H-1?

A. Schedule H-1 reflects the removal of $188,000 in expenses charged to O & M for a prior year accounting correction and is removed to reflect a normal base year, as shown on Schedule H-1, line 3, column (e).

Q. PLEASE EXPLAIN THE ADJUSTMENT TO REMOVE UNRECOVERABLE ADVERTISING EXPENSES ON SCHEDULE H-2.

A. Schedule H-2 is a regulatory adjustment which eliminates all costs associated with brand and image advertisements and sponsorship of community organizations. The advertising expenses included in the RRS Model are those designed to encourage safety, promote hiring, or educate consumers on the rates, energy conservation, and significant weather events of the Company. This adjustment is a reduction to the RRS of $243,431 as shown on Schedule H-2, line 11, column (e).

Q. PLEASE EXPLAIN THE ADJUSTMENT TO REMOVE DUES AND CONTRIBUTIONS ON SCHEDULE H-3.

A. Schedule H-3 is a regulatory adjustment to remove the costs of dues and contributions not recoverable from customers. Dues and contributions such as non-essential membership fees, sponsorships of community and charitable events, and other similar contributions are not recoverable and are removed. The adjustment is a reduction to the RRS of $35,988 as shown on Schedule H-3, line 11, column (e).

Q. PLEASE EXPLAIN THE REMOVAL OF GAS COSTS ON DIRECT EXHIBIT SKJ-2, SCHEDULE H-4?

A. Schedule H-4 is a regulatory adjustment to remove the purchased gas cost expenses as they are recovered through the Gas Cost Adjustment (GCA). The revenues associated with gas costs are also removed on Schedule I-2. Gas costs are only incurred for Rate Areas 1, 2, and 3 and are currently recovered through the GCA. An adjustment to decrease operating expenses by $91,177,636 is shown on Schedule H-4, line 10, column (e).

Q. DO THE CUSTOMERS IN RATE AREA FIVE HAVE GAS COSTS?

A. The customers in Rate Area Five obtain gas supplies under the Choice Gas Program where individual customers choose their own supplier and purchase gas directly from a Choice Gas Program Supplier according to the terms of a Supplier Participation Agreement. The cost of the gas commodity is charged to the customer by BH Nebraska Gas in accordance with the price agreed to between the Customer and the Choice Gas Program Supplier. Although the gas cost charges to the customers are collected by the Company, as previously explained, the gas cost charges are not recorded as revenues or expenses by BH Nebraska Gas. Therefore, those Choice Gas Program Customer gas costs are not included in the Base Year or Test Year calculation of revenue requirements.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO ANNUALIZE WAGES, SALARIES, AND BENEFITS FOR THE DIRECT EMPLOYEES OF BH NEBRASKA GAS ON DIRECT EXHIBIT SKJ-2, SCHEDULE H-5?

A. The adjustment of $2,044,010, on Schedule H-5, line 116, column (e) represents the actual annual wages of direct BH Nebraska Gas employees using payroll data as of March 31, 2025, which is representative of employee headcount in the Test Year. The Company has calculated the ongoing annual expenses of 341.5 direct employees of BH Nebraska Gas. As of April 10, 2025, there were 329 employees, one position that splits their time equally with an affiliate, and 12 open positions. The adjusted amounts incorporate contracted wage increases for union employees and 4% merit increases for non-union employees that were implemented in March 2025, AIP costs representing 100% of targeted payout and benefits. The overtime, call-out and standby pay included is the actual amount for the Base Year. The payroll tax adjustment related to wages and salaries is included in Statement L. The results of that calculation are used to set the basis of the labor costs reflected in the Test Year.

Q. HOW DID THE COMPANY CALCULATE THE ONGOING ANNUAL EXPENSES OF THE 341.5 DIRECT EMPLOYEES?

A. BH Nebraska Gas obtained the gross pay, merit increase, overtime, stand-by pay, call out pay, incentive pay, 401(k) contributions, retirement contributions, and insurance costs for health, life, dental, and AD&D insurance from the Human Resources department to determine the ongoing annual pay and benefits received by each employee. The costs in the Test Year for overtime, stand-by, and call out pay are representative of those costs going forward on an annual basis; thus these components were not adjusted.

BH Nebraska Gas pulled detail from the general ledger to determine where these costs were recorded in the Test Year, since some of these costs are recorded to the balance sheet as a component of capital based on the time coding of the employees. BH Nebraska Gas determined the ratio of costs that are included in the

O&M expense accounts is 57.81% of the total direct labor costs, other than for the eight Business Development team members, as 99.63% of their total direct labor costs are included in O & M.

Q. WHAT IS INCLUDED IN THE REVENUE REQUIREMENT REGARDING INCENTIVES?

A. Incentive compensation included within the Test Year includes Annual Incentive Pay ("AIP"), Short-term Incentive Pay ("STIP"), Long-term Incentive Pay ("LTIP") and equity compensation. These incentive programs are described in detail by Mr. Kris J. Pontious in his Direct Testimony.

Q. DOES THE COMPANY TYPICALLY PAY 100% OF TARGET?

A. No. The actual annual payout could be more, or it could be less than the target incentive pay established for employees. Incentive pay is based upon performance targets (both financial and non-financial) that pay out as a percentage of the incentive calculation from 0% to 150% of the target. In the last four years the performance target for BH Nebraska employees was paid out as follows: 2024 was 103.56%; 2023 was 99.42%; 2022 was 74.14%; and 2021 was 99.64%. While the results of the performance targets do vary from year to year the Company proposes the ongoing expectation of 100% of target is reasonable.

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR PENSION AND RETIREE HEALTHCARE ON SCHEDULE H-6?

A. Schedule H-6 adjusts the Base Period expenses for pension and retiree healthcare costs to the actuarially forecasted expenses ending December 31, 2025, as discussed in the Direct Testimony of Mr. Stevens. An adjustment was made to decrease the Retiree Healthcare expense in the amount of ($4,651), as shown on Schedule H-6, line 4, column (d). The pension expense adjustment results in an increase to operating expense in the amount of $44,987, as shown on Schedule H-6, line 9, column (d). The net of these adjustments is an increase to operating expense in the amount of $40,336, as shown on Schedule H-6, line 11, column (d).

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR SHARED SERVICE CHARGES FROM BLACK HILLS SERVICE COMPANY SHOWN ON DIRECT EXHIBIT SKJ-2, SCHEDULE H-7?

A. Schedule H-7 shows BHSC allocated charges under the CAM for the Test Year and associated *pro forma* adjustments. These adjustments reflect updated BHSC costs and allocations of expenses throughout the Test Year and adjust for known and measurable changes. BH Nebraska Gas receives costs through both direct and indirect allocations under the terms of the BHSC CAM. The following adjustments are included within Direct Exhibit SKJ-2 Schedule H-7:

- Updated CAM allocation factors to be applied to the Base Year period expenses. The 2024 Base Year costs indirectly allocated to the BH Nebraska Gas entities were based on the allocation factors as of September 30, 2023. BHC performs an annual review and update of allocation factors September 30 of each year to go into effect as of January 1 of the following year. Based on BHC's practice of updating the allocation factors, new factors and resulting allocation percentages were calculated as of September 30, 2024, to be used beginning January 1, 2025, the beginning of the Test Year. The updated allocation rates were applied to the Base Year 2024 total pool of indirect costs which resulted in an estimated decrease of costs to BH Nebraska Gas. This application was completed so that the CAM calculations applied on the date that new rates for BH Nebraska Gas are effective match the shared service expenses in the underlying revenue requirements. The net effect of the changes decreased the shared service costs chargeable to BH Nebraska Gas by $368,126.

- Labor related adjustments are summarized below:
  - Annualization of labor expense after the 2025 merit increases and promotions, based upon February 3, 2025, pay rates to reflect average merit increases of 4% that occurred in February 2025. Mr. Pontius explains the merit increase and overall compensation philosophy in his Direct Testimony. BH Nebraska Gas's share of the resultant operating costs for annual merit increases to BHSC staff compensation is $856,568.
  - Adjusting the AIP and STIP payout to 100% of target. Although incentives paid each year can be variable, the Company feels that adjusting the 2024 incentive paid in 2025 to 100% of target is representative of future costs. This results in a decrease of $44,146 that is included in the total labor adjustment.
  - Increased headcount due to a delay in hiring from 2024 and the reorganization of certain teams. This results in an increase of $1,468,360 that is included in the total labor adjustment.

The net of the labor adjustments is an increase of $2,280,785.

- Insurance premiums are adjusted to reflect the new contract rates for operations insurance, property insurance and general business insurance. BH Nebraska Gas will receive premium renewals in July 2025 and will update the RRS to reflect the new premiums at an appropriate time in the proceeding. This adjustment increases expenses by $951,642, based upon current invoices. As described in more detail below, the Company is proposing to establish a regulatory asset to defer and track insurance expenses above the amount included in base rates.

- Pooled medical benefit costs are adjusted to reflect the 2025 level of expense which increases expenses by $813,971 and is reflective of an ongoing increase of 9-12% per year.

The sum of the adjustments as shown on Schedule H-7, line 117, column (i) is $3,678,272.

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR BAD DEBT EXPENSE SHOWN ON SCHEDULE H-8.

A. Bad debt is calculated as a percentage of overall jurisdictional revenue. The adjustment reflects the impact of higher bad debt expense because of the higher revenues resulting from this rate review and adjusts the bad debt expense to increase at the same rate as proportional to revenues. Black Hills calculated an average effective uncollectible rate of 0.4490%. This is accomplished by calculating the three-year average of net write-offs from January 1, 2022, through December 31, 2024, as well as the three-year average of billed revenue over that same period. The Company then divided the average net-write offs by the average billed revenue to calculate the average effective uncollectible rate. To determine the adjustment, the Company multiplied the average effective uncollectible rate was multiplied by the adjusted total operating revenue shown on Statement B, line 5, Column (h) plus the SSIR DIIP Revenue from Statement I, line 26, Column (g), which are recovered outside of base rates. The result is a total company Test Year expense of $957,915 compared to the Base Year expense of $510,037. An adjustment of $447,878 is incorporated to reflect the Test Year expenses calculated, as shown on Schedule H-8, line 23, Column (d).

Q. HOW WILL THE BAD DEBT EXPENSE ASSOCIATED WITH GAS PURCHASES BE RECOVERED?

A. Bad debt expense associated with gas purchases will be recovered through the GCA for Rate Areas 1, 2, and 3 and through the supplier charges calculated annually through the Choice Gas Program. The Company only included the bad debt expense associated with the portion of the customer bills included in base rates. This is consistent with the currently approved method to recover bad debt expense.

Q. PLEASE DESCRIBE THE ADJUSTMENT FOR ALTERNATE FORMS OF PAYMENT ON SCHEDULE H-9.

A. Under current base rates for BH Nebraska Gas, the Commission has allowed the processing costs associated with credit card and ACH transactions to be included in the revenue requirement. This allows customers the convenience of paying their bill with a credit card or Automated Clearing House ("ACH"), without a separate service fee, and the fees associated with card processing are reduced per transaction when they are paid by the utility rather than by individual customers paying bills. There is a steady increase in the number of customers that want the convenience of multiple payment opportunities for payment with the Company experiencing a three-year average increase in electronic payments of 15.5%. An adjustment of $241,388 is made in the Test Year to reflect the increased use of this program, as shown on Schedule H-9, line 2, Column (e).

Q. PLEASE DESCRIBE THE FLEET DEPRECIATION ADJUSTMENT ON SCHEDULE H-10?

A. Depreciation expense associated with fleet investment is not recorded in the depreciation accounts but rather is recorded in a clearing account and included in the fleet loading process. This process allocates fleet costs, including depreciation expense, based upon the actual use of the vehicles. Utilizing the proposed depreciation rates, depreciation expense was adjusted to annualize the expense, considering that only a portion of the actual expense is reflected in Test Year O&M expenses. The remaining depreciation expense is coded to either capital projects or to non-utility expense based on the use of the vehicles. The adjustment for fleet depreciation expense is allocated to accounts in the same ratio as the fleet loadings. This method reflects the annualized depreciation expense as though it had been recorded through the fleet loading process, thus fleet depreciation is not included on Statement J as part of the depreciation adjustment. The O&M adjustment for fleet depreciation is $937,547 as shown on Schedule H-10, line 78, Column (e).

Q. PLEASE DESCRIBE THE ADJUSTMENT TO REMOVE DIIP COSTS.

A. DIIP costs are recovered on an annual basis through the SSIR filing. Since the revenue is collected outside of base rates, Base Year expenses of $1,989,365 have been removed from the revenue requirement.

Q. PLEASE DESCRIBE THE ADJUSTMENT FOR THE PUBLIC AWARENESS CAMPAIGN FOR PIPELINE SAFETY ON SCHEDULE H-12.

A. The Company spent $143,947 in the Base Year and is requesting to increase the Campaign amount by $200,000 to include additional targeted community outreach.

The planned program changes are further described in Mr. Jarosz' testimony. This adjustment is shown on Schedule H-12, line 3, Column (e).

Q. PLEASE EXPLAIN THE REMOVAL OF THE HEAT PROGRAM ADMINISTRATION COSTS ON SCHEDULE H-13.

A. Per Application No. NG-0036, BH Nebraska Gas agreed that administration costs related to the HEAT program should be borne by the Company and not the customer, thus these expenses are removed from base rates. An adjustment to remove these expenses in the amount of $108,784 is shown on Schedule H-13, line 2, column (e).

VIII. <u>DEPRECIATION EXPENSE</u>

Q. WERE ADJUSTMENTS MADE TO DEPRECIATION EXPENSE?

A. Yes, as described in the Direct Testimony of Mr. Spanos, a depreciation study resulted in newly proposed depreciation rates. Schedule J-1 is the result of the depreciation and amortization adjustment and is discussed in the Direct Testimony of Ms. Mack. The resulting increase in depreciation and amortization expense of $12,313,203 is shown on Statement J, line 14, Column (e).

IX. <u>INCOME TAX EXPENSE</u>

Q. ARE THERE ADJUSTMENTS TO THE INCOME TAX CALCULATIONS ON STATEMENT K?

A. Yes. Federal and state income tax is calculated based on the adjusted rate base amount on Statement B and the Statement G debt and equity ratios using the synchronized interest method. As shown on Statement K, the adjusted operating income before tax amount from Statement B, line 12, column (c), is reduced by the adjusted interest expense, resulting in pre-tax net operating income. To arrive at taxable income, tax differences and deferred taxes relating to items not included in the revenue requirements are eliminated. This taxable income is added to the total temporary differences and multiplied by the current federal and state income tax rates to arrive at total income tax expense. The sum of these calculations results in adjusted income tax expense in the amount of $5,567,355, as shown on Statement K, line 86, Column (f), and is discussed in detail in the Direct Testimony of Mr. Crouch.

X. <u>TAXES OTHER THAN INCOME</u>

Q. WHAT ARE TAXES OTHER THAN INCOME?

A. Taxes Other Than Income ("TOTI") are amounts paid to Federal, State, and local governments for revenues not associated with income. These taxes are: Federal Insurance Contributions Act ("FICA"), federal and state unemployment taxes, property taxes, other payroll taxes, and Sales/Use tax.

Q. ARE THE AMOUNTS RECORDED IN THE BASE YEAR REPRESENTATIVE OF THE TEST YEAR?

A. Sales/Use Taxes and Other payroll taxes are representative of the Test Year, but FICA, unemployment taxes, and property taxes are not representative of the Test Year.

Q. PLEASE EXPLAIN THE FICA TAX ADJUSTMENT.

A. The proposed adjustment to labor expenses impacts the amount of FICA tax that the Company will be required to pay. The adjustment captures this increase by multiplying the wage adjustment from Schedule H-5 by the FICA rate, resulting in a *pro forma* adjustment of $156,367, as shown on Schedule L-1 line 4.

In addition, the Company adjusted the BHSC Allocated Labor on Schedule H-7. Due to this increase in labor, the Company also needed to include a FICA adjustment for BHSC labor. The adjustment captures this increase by multiplying the wage adjustment from Schedule H-7 by the FICA rate, resulting in a *pro forma* adjustment of $174,480, as shown on Schedule L-1 line 9.

Q. PLEASE EXPLAIN THE ADJUSTMENTS FOR UNEMPLOYMENT TAXES.

A. Like the FICA tax adjustment, the federal and state unemployment tax will be impacted by the labor expense adjustments on Schedules H-5 and H-7. The Company includes an adjustment that multiplies the additional headcount in the Test Year by the Federal Unemployment Tax Act ("FUTA") cost per employee, resulting in *pro forma* adjustments of $12,600 for FUTA as shown on Schedule L-1 line 14. The State Unemployment Tax Act ("SUTA") employment tax adjustment is based on the taxable growth amount multiplied by the additional headcount in the Base Year to arrive at taxable earnings, which is multiplied by the SUTA rate for as shown on Schedule L-1 line 17 and results in an adjustment of $5,688.

Q. WHY ARE BASE YEAR PROPERTY TAXES NOT REPRESENTATIVE OF THE TEST YEAR?

A. There are two reasons why Base Year property taxes are not representative of the Test Year. First, the Base Year expense recorded includes out of period adjustments related to the timing that occurs each year for the property tax expense estimated and actually incurred during the calendar year. Second, the Base Year Property tax expense does not represent the *pro forma* plant additions that will be placed in service when rates from this proceeding become effective.

Q. PLEASE EXPLAIN THE PROPERTY TAX OUT OF PERIOD ADJUSTMENTS?

A. Property tax bills showing current year mill levy rates are received in March for the previous tax year; therefore, each calendar year's expense is estimated from the appraisal until the final total tax amount is known when the tax bills are received. This process skews the annual expense recorded for both the prior year's true up and the true up to be made in the following year. Removing the out of period adjustment increases property tax expense by $474,308 as shown on Statement L, line 27.

Q. PLEASE EXPLAIN THE ADDITIONAL OUT OF PERIOD PROPERTY TAX ADJUSTMENT.

A. The Company is proposing to recover property taxes associated with stored gas in Beckham County, OK that were incorrectly charged to an affiliate. In late 2023, the Property Tax team found that the annual property taxes relating to stored gas in Beckham County, OK were charged to BH Nebraska Gas affiliate Black Hills/Kansas Gas Utility, LLC, but the Kansas customers do not receive the benefit of this stored gas. Affiliate Black Hills/Iowa Gas Company LLC and BH Nebraska Gas customers are the only beneficiaries from the use of the stored gas.

A total of $901,483 in taxes was calculated to have been paid by BH Kansas Gas over a fifteen-year period (2008-2023). BH Nebraska Gas was responsible for $528,494 over the same time frame. Due to the statute of limitations, BH Nebraska Gas is only seeking to recover property taxes of $116,664 relating to 2020-2023. The Company is requesting to amortize the $116,664 of property tax expense over a three-year period resulting in an increase of $38,888 per year for property taxes, as shown on Schedule L-2, line 7.

Q. PLEASE EXPLAIN THE PROPERTY TAX ADJUSTMENT RELATING TO PLANT ADDITIONS ON SCHEDULE L-1?

A. The Base Year property tax expense is based on the ending plant balances as of December 31, 2023. The Company adjusted the Test Year plant balances to reflect the December 31, 2025, plant balances and must adjust the property tax expense in order to maintain symmetry between the plant balances and the property tax expense.

Q. HOW WAS THE PROPERTY TAX EXPENSE ADJUSTMENT CALCULATED FOR THE PLANT ADDITIONS?

A. The Company calculated a ratio of property tax expense to plant balances. The resulting percentage ("Property to Gross Plant Factor"), achieved by dividing the property tax expense for 2024 by the total Gross Plant from the Company's tax year 2024 appraisal, is a reasonable estimate of incremental property tax expense expected from each dollar of Capital Additions and results in .6733% of the gross plant additions to be the incremental property tax expense for the Test Year. The capital balance for BH Nebraska at the end of the proposed Test Year is multiplied by the Property to Gross Plant Factor which results in the adjusted test year property tax expense. The difference between the Base Year and Test Year property tax expense results in an adjustment of $1,302,270. This calculation is shown on Schedule L-1, lines 22 through 26.

XI. REVENUES

Q. HOW DO REVENUES IMPACT THE REVENUE REQUIREMENT?

A. Revenues do not impact the calculation of the revenue requirement. Revenues are used as the measure of whether a company is receiving the required revenues calculated in the study. The difference between the revenues received and the revenue requirement is the Revenue Deficiency (if the revenues received are less than the revenue requirement) or the Excess Revenues (if the revenues received are more than the revenue requirement) and is shown on Statement A of Exhibit SKJ-2.

Q. HOW WERE THE TEST YEAR REVENUES DEVELOPED FOR PURPOSES OF THE RRS?

A. Statement I of the RRS summarizes the per book revenues and the *pro forma* adjustments to provide the amounts used to calculate the revenue deficiency on Direct Exhibit SKJ-2, Statement A. The Company incorporated the adjusted Revenues for the Test Year as calculated and explained by Mr. Hyatt in his direct testimony.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO REMOVE UNBILLED AND OTHER REVENUES ON SCHEDULE I-1?

A. Unbilled revenues represent revenue that is recorded during the Base Year that are associated with activity outside the Base Year. For this reason, unbilled revenues are eliminated from the total of the revenues. The removal of $168,379 is found in Column (d).

An additional adjustment was made to remove a prior period accounting adjustment. An entry was posted in the Base Year to correct the bad debt associated with Choice Gas suppliers, but the revenue related to years prior to 2024. In column (e), $172,376 is added to other revenue to normalize for the year.

Additional adjustments were completed for revenue collected outside of base rates that ended in the Base Year. These adjustments included:

- Removal of $126,445 in column (f) relating to the ALLO Line Locate Surcharge which ended in February 2024. Recovery was approved in Application No. NG-109.
- Removal of $362,071 in column (g) relating to the true-up of 2022 DIIP expenses included in the 2024 SSIR rates.

Total adjustments for unbilled and other revenue result in a reduction of $484,518 as shown in column (h).

Q. WHAT IS THE GAS COST REVENUE ADJUSTMENT ON SCHEDULE I-2?

A. Schedule I-2 removes the gas cost revenues from the Base Year as they are recovered outside of base rates through the Purchased Gas Cost Adjustment. The resulting revenue reduction of $91,781,962 is shown on line 26, Column (f).

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR SSIR DIIP REVENUES ON SCHEDULE I-3.

A. The SSIR recovery mechanism approved in Application No. NG-112 consists of both a capital and an O&M component. The Company is requesting to roll the capital assets, revenues and expenses into base rates, thus there is no adjustment for the related revenue. However, the DIIP O&M component is related to expenses which occur on an annual basis and is recovered through the SSIR. The Company removes this revenue to apply the matching principle since the corresponding expenses are removed on Schedule H-11 as discussed above. The adjustment of $1,391,041 is shown on Schedule I-3, line 26, Column (e). The roll-in of the SSIR and treatment of the DIIP O&M components are discussed in detail in the Direct Testimony of Ms. Bannan.

Q. WHAT IS THE BILLING DETERMINANT SYNCHRONIZATION ADJUSTMENT ON SCHEDULE I-4?

A. The billing determinant synchronization adjustment is required to synchronize the revenues calculated using the billing determinants and the revenues from the accounting system and results in an adjustment of $58,916, as shown on line 20, Column (f). This adjustment is discussed further in the Direct Testimony of Mr. Fritel.

Q. WHAT IS THE WEATHER NORMALIZATION ADJUSTMENT (“WNA”) ON SCHEDULE I-5?

A. The WNA is proposing to adjust revenues to that which would be expected in an otherwise “normal” or typical year relating to weather. The resulting revenue increase of $3,304,212 is shown on line 20 and is further explained in the Direct Testimony of Mr. Fritel.

Q. PLEASE EXPLAIN THE INCREMENTAL GROWTH ADJUSTMENT ON SCHEDULE I-6.

A. The incremental revenue adjustment related to customer growth is based upon the forecasted number of customers as of December 31, 2024, through the Test Year. This adjustment adjusts revenues based on the forecasted customer growth. The total increase to revenues of $1,326,576 is discussed further in the Direct Testimony of Mr. Fritel.

Q. WHAT ARE THE AGRICULTURE REVENUE ADJUSTMENTS ON SCHEDULE I-7?

A. The first agriculture revenue adjustment is an increase to revenue of $811,002 and is proposed to reflect normal conditions. The second agriculture revenue adjustment is an increase to revenue of $987,870 and relates to the implementation of the Annual Agriculture Infrastructure Repair Charge. These adjustments are discussed further in the Direct Testimony of Mr. Fritel.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO SSIR REVENUE ON SCHEDULE I-8.

A. This adjustment captures the incremental increase in SSIR revenues that will be collected in the Test Year. Once interim rates are implemented, the capital asset portion that relates to the SSIR rate will be rolled into base rates and included in the interim base rates that will be charged to customers. The adjustment excludes the portion related to the DIIP O&M component and results in an increase to revenues of $3,519,761 as shown on Schedule I-8, line 26, Column (e).

Q. PLEASE EXPLAIN THE NON-REGULATED REVENUE CREDIT ADJUSTMENT ON SCHEDULE I-9.

A. BH Nebraska Gas has both regulated and non-regulated businesses where utility assets are used to provide both regulated and non-regulated services. Therefore, in order to provide customers with reimbursement for the use of utility assets in non-regulated operations, the Company incorporated an adjustment on Schedule I-9. The adjustment is based upon a cost for the use of assets by the non-regulated activity calculated using the relevant General Plant account balances. This adjustment is a credit added to revenues to account for the use of utility property in non-utility work. The adjustment results in an increase in revenues in the amount of $494,629, as shown on Schedule I-9, line 15, Column (h).

Q. PLEASE EXPLAIN THE SERVICE FEES ADJUSTMENT ON SCHEDULE I-10.

A. The Company proposes to increase connection and reconnection charges to align with current costs. The increase in fees is shown as an adjustment on Schedule I-10, Line 22, Col (d) & (e) for $596,285 and $77,295, respectively. The Company also proposes an increase in the late payment fee from 1% to 1.5% which results in an adjustment of $309,430 as shown on Schedule I-10, Line 21, Col (f). These adjustments are discussed further in the direct testimony of Ms. Tatyana V. Bannan.

XII. SHARED SERVICES COSTS

Q. PLEASE DESCRIBE THE NATURE OF BHC AND ITS CENTRALIZED SHARED SERVICE FUNCTIONS.

A. BHC is a public utility holding company subject to regulation under the Public Utility Holding Company Act of 2005 ("PUHCA"). BHC operates with two major business groups: 1) Utilities - which deliver retail electric and natural gas service in eight states through twelve regulated jurisdictional utilities; and 2) Non-regulated Energy - which is involved in various wholesale energy businesses.

BH Nebraska Gas is a Nebraska limited liability company and is also a separate operating regulated utility subsidiary in the BHC organization. BH Nebraska Gas owns regulated utility assets in Nebraska and has employees to manage BH Nebraska Gas operations.

As a utility company operating in multiple states, BHC utilizes a shared service company (i.e., BHSC), which provides essential centralized shared services to each of its subsidiaries. As discussed above, BHSC is defined as a Shared Resources Affiliate of BH Nebraska Gas.

Costs of centralized shared services are assigned pursuant to a Cost Allocation Manual ("CAM"). Having centralized service functions avoids the cost of duplication of the functions, assets, and expertise, but still has access to all the resources necessary to conduct business efficiently. Accordingly, BHC subsidiaries, such as BH Nebraska Gas, realize lower costs through the sharing of these services and assets with other BHC subsidiaries.

Q. WHAT IS MEANT BY SHARED SERVICE COSTS AND SHARED SERVICE ASSETS?

A. In the context of this proceeding, shared service costs are the costs for services provided by centralized employees and functions for the benefit of any of BHC's subsidiaries needing that particular service. Examples of centralized shared services include information technology, accounting, tax, regulatory, engineering, gas supply, shipper services, and legal services. Shared service assets reflect the investment in plant assets purchased and owned by centralized functions that benefit multiple BHC subsidiaries, including BH Nebraska Gas. Examples of shared service assets, also referred to as common assets, include the Customer Information System, computer software (such as FSO NextGen, SCADA, Endur), computer hardware, the Enterprise Resource Planning system (PeopleSoft), and corporate pooled vehicle fleet. These assets are held at the BHSC level for the benefit of more than one BHC subsidiary.

Q. ARE THE SERVICES PROVIDED TO BH NEBRASKA GAS UNDER A WRITTEN AGREEMENT?

A. Yes. BH Nebraska Gas as well as all other BHC regulated utilities operate under a written service agreement with BHSC. The agreement calls for BHSC to provide services at cost to BH Nebraska Gas through direct charges and indirect charges. Expenses for support services received by BH Nebraska Gas are charged to BH Nebraska Gas monthly pursuant to the agreement.

Q. WILL BH NEBRASKA GAS CONTINUE TO RECEIVE SHARED SERVICES FROM BHSC?

A. Yes. BH Nebraska Gas will continue to receive shared services from BHSC.

Q. ARE THE COSTS ALLOCATED BY BHSC IN THIS PROCEEDING CONSIDERED TO BE FROM A SHARED RESOURCES AFFILIATE?

A. Yes. Those costs are allocated to BH Nebraska Gas pursuant to the methodologies established in the BHSC CAM. Those costs are prudent and reasonable costs to be allocated through the CAM. For example, the BHSC Supply Chain purchases materials and supplies from third-party vendors, at market prices, and often engages in competitive bidding for its pipes, materials, equipment, and other supplies. Similarly, the employee costs that flow through the CAM are established by using market studies for compensation. The same process is true for other items purchased by BHSC and then allocated to BH Nebraska Gas through the CAM.

Q. WHAT TYPES OF SHARED SERVICES DOES BH NEBRASKA GAS RECEIVE?

A. BHSC provides essential services to BH Nebraska Gas, such as human resources, legal, accounting, customer service, engineering, gas supply services, regulatory and finance services.

Q. HOW DOES BH NEBRASKA GAS BENEFIT FROM THE SHARED SERVICES PROVIDED BY BHSC?

A. Having a central source for the necessary shared services minimizes the need for each subsidiary, including BH Nebraska Gas, to provide such services independently. The result is the business units gain access to specialized skills and resources in an efficient and cost-effective manner. The goals for BHSC are to: (i) generate efficiencies through the sharing of standardized best practices across all utilities, (ii) enhance the ability to share resources across the companies; (iii) reduce liability through the implementation of risk-pooling and best practices; and (iv) provide the attendant cost efficiencies across all utilities

XIII. THE COST ALLOCATION MANUAL

Q. WHAT IS A COST ALLOCATION MANUAL?

A. A CAM is an internal written document that governs and directs how corporate costs and assets are distributed among the corporation's affiliates. Simply stated, the CAM is the document that details the methodology used to allocate shared service costs.

Q. WHAT CAMS WERE USED TO DEVELOP BH NEBRASKA GAS'S REVENUE REQUIREMENT IN THIS PROCEEDING?

A. The BHSC CAM amended December 20, 2024, presented as Application Exhibit No. 1, Section 3, Rule 004.04G, was used to develop BH Nebraska Gas's proposed revenue requirement for the Test Year in this proceeding.

Q. PLEASE PROVIDE AN OVERVIEW OF THE CAM.

A. The CAM employs the Modified Massachusetts formula[7] and identifies the methods used to ensure that expenditures are appropriately and consistently assigned, distributed or allocated among utility operations and to the non-regulated activities within BHC. In accordance with the CAM, costs incurred by BHC to support and administer non-regulated activities are charged to non-regulated accounts to avoid any subsidization.

Q. WHAT IS THE DIFFERENCE BETWEEN ASSIGNED, DISTRIBUTED, AND ALLOCATED COSTS?

A. Direct costs are either assigned or distributed, while indirect costs are allocated. Direct costs are those corporate costs that are specifically associated with a particular service or product within an identified subsidiary or group of identified subsidiaries and result in direct charges to the service or product within that specific subsidiary or group of subsidiaries. Indirect costs are those corporate costs that

[7] The methodology applied in the BHSC and BHUH CAM is modeled after a commonly used multi-factor formula approved for use by state and federal utility regulators called the "Modified Massachusetts" formula. The Modified Massachusetts formula consisting of direct labor, capital investment and net operating revenues (i.e. without cost of goods sold) was initially approved in *Distrigas of Massachusetts Corp*., 41 FERC ¶ 61,205 (1987). *See Accounting for Public Utilities*, by Robert L. Hahne and Gregory E. Aliff, Release No. 31, November 2014 Chapter 19.03[4][d].

cannot be identified with a particular service or product within an identified subsidiary. This means the costs indirectly support all subsidiaries or directly support the operation of BHSC. All services billed to BHC subsidiaries are either directly assigned, directly distributed, or where direct assignment/distribution is not practical, allocated as indirect costs under allocation methodologies based on cost causation principles as memorialized in the CAM.

Q. HOW ARE DIRECT COSTS CHARGED TO BH NEBRASKA GAS?

A. The costs of services that can be directly assigned to or distributed to a service or product within a subsidiary are billed directly to the service or product within that benefiting subsidiary. An example of a directly assigned charge to BH Nebraska Gas is a trainer from the Gas Engineering Department who provides safety and operating procedure training to the employees of BH Nebraska Gas. The employee-related expenses associated with the training are specifically associated with BH Nebraska Gas. Therefore, this would be a directly assigned cost.

An additional type of direct cost is a cost that is distributed directly to a BHC entity. A directly distributed cost is a cost that benefits a product or service of multiple BHC subsidiaries and can be distributed based upon a primary cost driver. By reflecting the operational characteristics of a service, the directly distributed cost methodology transfers costs to the BHC subsidiaries in an impartial manner. The directly distributed cost methodology reflects how each BHC subsidiary caused the costs of a product or service to be incurred in a stable, predictable and consistent method. An example of a directly distributed cost is the cost of centralized employee benefit administration by members of the Human Resource Department. The costs are distributed under the CAM to the multiple product lines and services within the BHC subsidiaries that benefit from the service based on the cost driver of employee count.

Q. HOW ARE INDIRECT COSTS CHARGED TO BH NEBRASKA GAS?

A. Indirect costs that are not associated with a product or service within an identified subsidiary, or that are attributable to more than one product or service within multiple subsidiaries, are indirectly allocated as mandated by the CAM. Such indirect costs are allocated using one of several pre-defined allocation ratios. Where applicable, each BHSC department has been assigned an allocation ratio for its indirect costs based on the primary cost driver of the department. All indirect costs of that department are then allocated using the department's assigned allocation ratio set forth in the CAM. An example of an indirectly allocated cost is the Corporate Accounting department's monthly closing of the consolidated BHC financial statements. Since the Corporate Accounting department is supporting all the subsidiaries of the enterprise, it is impractical to directly charge. Thus, the charge would be considered an indirect cost. The monthly financial close activity is in support of all products and services within BHC subsidiaries, thus, the driver for the indirect costs is the relative managerial attention invested in a given subsidiary as measured by the net plant, margin and payroll (the “blended ratio”) of the subsidiary. The indirect costs for the consolidated monthly financial close activity are allocated to BH Nebraska Gas using a pre-defined allocation based on the blended ratio[8].

[8] See Appendix 2 included within the CAM (Application Exhibit 1, Section 3, Rule 004.04G) for a listing of all allocation ratios, including the blended ratio.

Q. DOES THE CAM DIFFERENTIATE BH NEBRASKA GAS FROM BHC'S ELECTRIC UTILITIES, NON-REGULATED SUBSIDIARIES, AND OTHER NATURAL GAS UTILITIES?

A. Yes. BH Nebraska Gas is a regulated natural gas utility and is assigned and allocated costs consistent with its inclusion in the natural gas utility segment of BHC. The CAM language differentiates BHC's natural gas utilities from BHC's electric utilities and non-regulated affiliates. For example, certain departments, such as the Design Engineering - Gas Department's indirect costs are allocated exclusively to the natural gas utility segment. Similarly, Electric Engineering Services, exclusively serve the electric utility segment. Therefore, the indirect costs incurred by the Electric Engineering Services department are allocated exclusively to the electric utility segment.

Q. WHEN WAS THE CAM LAST UPDATED?

A. The last update to the CAM was completed December 20, 2024. The update included some minor changes in department names, grammatical errors, and other updates.

Q. WHAT IS AN AFFILIATE TRANSACTION?

A. An Affiliate Transaction is defined in Commission Rule 001.01A2 as follows:

> The purchase, sale, trade or lease of a good, service, or tangible or intangible asset from the regulated utility to an affiliate, regulated or unregulated other than a shared resources affiliate, or from an affiliate other than a shared resources affiliate to the regulated utility.

Commission Rule 001.01A1 defines "Shared Resources Affiliate" as "… an entity who primary purpose is to share employees, departments, or other physical assets used by the jurisdictional utility."[9]

Q. WHAT IS THE DIFFERENCE BETWEEN THE TWO TYPES OF AFFILIATE TRANSACTIONS?

A. Commission Rule 005.07 requires that any payments to an affiliate other than a "Shared Resources Affiliate" demonstrate that the payment under affiliate transaction is prudent and reasonably approximate market value.[10] Thus, Affiliate Transactions that are between BH Nebraska Gas and a Shared Resources Affiliate, (i.e., from BHSC) do not require the same level of evidentiary support to be deemed prudent. Those Shared Resources Affiliate Transactions are deemed to be prudent.

On the other hand, if BH Nebraska Gas purchases gas supplies or other goods or services from an affiliate that is not a "Shared Resources Affiliate," then it must demonstrate that the costs charged by the affiliate reasonably approximate the market value of the good or service.

Q. DOES BH NEBRASKA GAS PROVIDE A SCHEDULE DETAILING AFFILIATE TRANSACTIONS BETWEEN BH NEBRASKA GAS AND ITS AFFILIATES?

A. Yes. Commission Rule 004.04F requires that BH Nebraska Gas provide a schedule detailing the Company's Affiliate Transactions.[11] The schedule detailing Affiliate

[9] 291 Neb. Admin. Code, Ch. 9, § 001.01A.
[10] 291 Neb. Admin. Code, Ch. 9, § 005.07.
[11] 291 Neb. Admin. Code, Ch. 9, § 004.04F.

Transactions for BH Nebraska Gas is provided as Application Exhibit No. 1, Section 3, Rule 004.04F.

XIV. DEFERRED ACCOUNTING TREATMENT

Q. WHAT IS THE COMPANY PROPOSING WITH RESPECT TO DEFERRED ACCOUNTING TREATMENT IN THIS PROCEEDING?

A. The Company is proposing two new deferred accounting trackers, which would allow the Company to record and defer insurance expenses and expenses associated with Manufactured Gas Plant ("MGP") research, environmental monitoring cleanup, and other appropriate or necessary remediation costs. Generally, deferred accounting orders are used to grant a public utility the opportunity to defer unanticipated costs with the opportunity to request recovery of the costs at a later time. The costs are generally significant in amount and/or could stem from unanticipated costs and/or are from new federal or state laws or rules that impact the utility's costs.

Q. WHAT IS THE PROPOSED BASELINE AMOUNT INCLUDED IN THE REVENUE REQUIREMENT FOR INSURANCE EXPENSE?

A. The proposed baseline insurance expense amount is $3,589,329.

Q. PLEASE EXPLAIN WHY AN INSURANCE EXPENSE TRACKER IS REQUESTED IN THIS PROCEEDING.

A. Similar to property tax expenses, insurance expenses are highly variable year over year, outside the control of the management, and are required to be paid. The tracker ensures customers pay no more or no less than the assessed tax expense. The Company did not request a tracker for insurance expense in its 2016 rate case. Since then, however, insurance rates have become even more volatile, especially within the last year.

Q. PLEASE EXPLAIN THE RECENT HISTORY OF INSURANCE EXPENSES FOR THE COMPANY.

A. Table SKJ-5 below shows the continued volatility in insurance expenses from 2018 through 2025.

Table SKJ-5 – Historical Insurance Expense

Period	Amount	YoY Change	YoY % Change
2018	1,369,993		
2019	1,439,451	69,459	5.1%
2020	1,883,936	444,484	30.9%
2021	1,570,286	(313,650)	-16.6%
2022	1,493,336	(76,950)	-4.9%
2023	3,098,522	1,605,186	107.5%
2024	2,478,351	(620,171)	-20.0%
2025	3,589,329	1,110,978	44.8%
2018-2025 Change		**2,219,337**	**162.00%**

Q. WHAT IS THE PROPOSED BASELINE AMOUNT INCLUDED IN THE REVENUE REQUIREMENT FOR MGP EXPENSES?

A. The proposed baseline expense amount is $138,821. The MGP costs, remediation and request for deferred accounting treatment are detailed in the Direct Testimony of Ms. Bassell-Herman.

Q. HOW WILL THESE TRACKERS OPERATE AFTER THE EFFECTIVE DATE OF NEW RATES IN THIS PROCEEDING?

A. The Company proposes establishing a base level cost that corresponds with the amounts included in the RRS and serve as the baseline for the tracking of costs going forward at the time new rates from this proceeding are implemented. The difference between actual booked expenses and the base level amounts will be deferred and recorded to the regulatory asset (or liability) account established for that tracker. With a tracker, customers are protected if the actual expenses are less than the amount included in base rates.

XV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

STATE OF SOUTH DAKOTA)
) SS
COUNTY OF PENNINGTON)

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

Samantha Johnson

Samantha Johnson

Subscribed and sworn to before me this 24th day of April, 2025.

BECKY PURINGTON NOTARY PUBLIC STATE OF SOUTH DAKOTA

(SEAL)

Notary Public

My Commission Expires: **My commission expires June 22, 2029**