

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 THOMAS D. STEVENS

Vice President, Treasurer

ON BEHALF OF BLACK HILLS NEBRASKA GAS, LLC

Date: May 1, 2025

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EXHIBITS

Direct Exhibit TDS-1	Statement of Qualifications
Direct Exhibit TDS-2	Moody's Ratings Methodology 08-06-24
Direct Exhibit TDS-3	S&P Specific-Sector Corporate Methodology 04-04-24

TABLE OF ABBREVIATIONS AND ACRONYMS

Aon	Aon Consulting, Inc.
ASC	Accounting Standards Codification
Base Year	The twelve (12) months ended December 31, 2024
BHC	Black Hills Corporation
BHSC	Black Hills Service Company, LLC
BH Nebraska Gas or Company	Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy
Commission	Nebraska Public Service Commission
FFO	Funds from Operations
GAAP	Generally Accepted Accounting Principles
Healthcare Plan	Black Hills Corporation Retiree Healthcare Plan
Moody's	Moody's Investors Service
OPEB	Other Postretirement Employee Benefits
Pension Plan	Black Hills Corporation Retirement Plan
ROE	Return on Equity
RRS	Revenue Requirement Study
S&P	S&P Global Ratings
Test Year	The twelve (12) months ending on December 31, 2025 adjusted for known and measurable changes
WACC	Weighted Average Cost of Capital

DIRECT TESTIMONY OF THOMAS D. STEVENS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas D. Stevens. My business address is 7001 Mt. Rushmore Road, 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"), a wholly-owned subsidiary of Black Hills Corporation ("BHC"). My title is Vice President, Treasurer.

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 "Company").

II. STATEMENT OF QUALIFICATIONS

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

A. I lead a team responsible for corporate financing activities, liquidity and cash management, mid-office risk and credit risk management, enterprise risk management, financial planning and analysis, strategic and corporate planning, shareholder services, and overseeing the investments and accounting for benefit plans for BHC and its subsidiaries and affiliates, including BH Nebraska Gas. My responsibilities also include managing relationships with rating agencies, banking institutions, actuaries, and investment advisors.

1 **Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL**
2 **BACKGROUND.**

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

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

6 A. No.

7 **III. PURPOSE OF TESTIMONY**

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. In my direct testimony, I discuss the corporate financing philosophy and practices of
10 BHC and explain how they are applicable to this case. I also provide support for BH
11 Nebraska Gas' proposed capital structure, cost of long-term debt, cost of equity, and
12 the overall weighted average cost of capital ("WACC"). Finally, I discuss and support
13 the levels of expense included in the Revenue Requirement Study ("RRS") for pension
14 and retiree healthcare expenses.

15 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

16 A. Yes, I am sponsoring the following Exhibits:

 Direct Exhibit TDS-1 Statement of Qualifications

 Direct Exhibit TDS-2 Moody's Ratings Methodology 08-06-24

 Direct Exhibit TDS-3 S&P Specific Sector Corporate Methodology 04-04-24

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1 **Q. DOES YOUR DIRECT TESTIMONY SUPPORT ANY SPECIFIC**
2 **SCHEDULES THAT ARE PART OF THE RRS FILED IN SUPPORT OF THE**
3 **COMPANY’S PROPOSED RATES IN THIS PROCEEDING?**

4 A. Yes. My testimony supports Statement G, Schedule G-1 and Schedule H-6 in the RRS
5 model being submitted by BH Nebraska Gas in Direct Exhibit SKJ-2 to the direct
6 testimony of Ms. Samantha K. Johnson.

7 **Q. PLEASE DESCRIBE ANY BH NEBRASKA GAS REQUESTS THAT YOU ARE**
8 **SUPPORTING THROUGH YOUR TESTIMONY.**

9 A. BH Nebraska Gas is requesting that the Nebraska Public Service Commission
10 (“Commission”) adopt BH Nebraska Gas’ capital structure of 50.52% equity and
11 49.48% long-term debt, which represents the capital structure necessary to support the
12 Test Year rate base. BH Nebraska Gas further requests that the Commission adopt the
13 Company’s proposed cost of long-term debt of 4.71% which is anticipated to be BH
14 Nebraska Gas’ actual cost of debt as of December 31, 2025, the end of the Test Year,
15 and the proposed return on equity (“ROE”) of 10.5%, as further supported by the
16 analysis and testimony of BH Nebraska Gas witness Mr. Adrien M. McKenzie. The
17 foregoing components result in an overall WACC of 7.63%.

18 Further, BH Nebraska Gas is requesting to include in its Test Year revenue
19 requirement pension and retiree healthcare expense amounts of \$614,407 and
20 \$809,999, respectively.

IV. FINANCING PHILOSOPHY

Q. PLEASE DESCRIBE THE MANNER IN WHICH BH NEBRASKA GAS OPERATIONS ARE FUNDED.

A. BHC provides financing for all of its utility subsidiaries, including BH Nebraska Gas. BHC performs this role to take advantage of the benefits of economic scale when it accesses public markets on behalf of its utility subsidiaries. BH Nebraska Gas ultimately receives funding via: (1) assignment of debt through intercompany notes payable to BHC based on the weighted average cost of BHC's pool of senior unsecured debt; (2) wholly or partially retaining its own earnings; and (3) receiving equity infusions from BHC.

Q. PLEASE EXPLAIN BHC'S OVERALL CORPORATE FINANCING PHILOSOPHY.

A. The financing philosophy employed by BHC, on behalf of BH Nebraska Gas and other BHC subsidiaries, prioritizes maintaining financial integrity and the ability to access capital, when needed, at a reasonable cost. This financing philosophy remains constant during times of increased uncertainty and volatility in the capital markets caused by unexpected economic events such as pandemics, weather events, geopolitical uncertainty, and inflationary periods. Financial integrity is critical for BH Nebraska Gas to satisfy its obligations as a Nebraska public utility and provide natural gas service to its retail customers.

Q. HOW DO YOU DEFINE FINANCIAL INTEGRITY?

A. In this context, financial integrity means having the financial stability necessary to weather the peaks and valleys of business cycles, volatility in financial markets and

1 interest rates, and unanticipated changes in operational requirements, all of which may
2 strain an organization's ability to finance capital and operating expenditures. A strong
3 financial position provides the flexibility necessary to meet the ongoing demand for
4 regulated public utilities to provide safe and reliable natural gas service.

5 **Q. PLEASE DESCRIBE HOW INVESTORS EVALUATE A COMPANY'S**
6 **FINANCIAL INTEGRITY.**

7 A. At a high level, investors look to nationally recognized credit rating services to evaluate
8 a company's financial integrity and risk profile, and to provide them with an
9 independent assessment of the company's current financial position. BHC maintains
10 credit ratings with two nationally recognized credit rating services: Moody's Investors
11 Service ("Moody's") and S&P Global Ratings ("S&P"). BHC focuses on maintaining
12 solid investment grade credit ratings. BHC's senior unsecured rating is Baa2 by
13 Moody's and BBB+ by S&P, both with stable outlooks. BH Nebraska Gas does not
14 maintain a separate company credit rating since it does not issue its own securities. BH
15 Nebraska Gas' witness Mr. Adrien McKenzie also explains how investors evaluate
16 financial integrity in his direct testimony.

17 **Q. PLEASE DESCRIBE HOW RATING AGENCIES EVALUATE COMPANIES.**

18 A. Each credit rating service maintains an analytical framework applicable to all rated
19 companies. Rating agencies utilize both qualitative and quantitative factors in
20 determining a company's credit ratings. In general, a company will provide detailed
21 financial, regulatory, and operational information to the rating agencies for their
22 analysis before credit ratings are issued for an entity's securities.

1 **Q. PLEASE PROVIDE MORE DETAIL ABOUT THE QUALITATIVE AND**
2 **QUANTITATIVE FACTORS THAT RATING AGENCIES USE IN**
3 **EVALUATING A REGULATED UTILITY ISSUER.**

4 A. Rating agencies review both qualitative and quantitative factors during their credit
5 evaluation process. For a regulated utility issuer, one of the most important qualitative
6 factors is the relevant regulatory climate, and particularly, a utility's ability to recover
7 its costs and earn reasonable returns on its investments within the regulatory
8 jurisdiction(s) where it operates. Ratings agencies also consider the utility's
9 management experience, governance, and the level of risk posed by the business. The
10 evaluation of these factors and others established by credit rating agencies results in an
11 overall assessment of the qualitative business risk for an entity.

12 As part of the quantitative assessment, the rating agencies review numerous
13 financial metrics for a given entity. These metrics are used to review trends over
14 periods of time for the entity, as well as to provide comparisons with other companies
15 in a given industry, or among various industry averages. These credit metrics include
16 assessment of the amount of leverage in the capital structure and measures of cash flow.

17 **Q. CAN YOU PROVIDE ANY INSIGHT AS TO HOW DIFFERENT RATING**
18 **AGENCIES CONSIDER THE GENERAL FACTORS YOU HAVE**
19 **IDENTIFIED?**

20 A. Moody's considers four key factors in their credit analysis for regulated utility
21 companies and provides guidance on how those factors are weighted.¹ They are: (1)

¹ See Direct Exhibit TDS-2, Moody's Investor Service Ratings Methodology for Regulated Electric and Gas Utilities, August 6, 2024.

1 regulatory framework (25%); (2) ability to recover costs and earn reasonable returns
2 (25%); (3) diversification (10%); and (4) financial strength and liquidity (40%).

3 S&P's assessment of a utility's business risk profile also focuses on the
4 regulatory environment and a utility's ability to recover costs and earn reasonable
5 returns. Specifically, S&P considers four regulatory environment subfactors: (1)
6 regulatory stability, including rate setting transparency, predictability of ratemaking
7 decisions, and consistency over time; (2) tariff-setting procedures and tariff designs
8 that ensure the recoverability of all operating and capital costs, balancing the interests
9 of all stakeholders, and providing appropriate incentives; (3) the existence of financial
10 stability, including the timeliness of cost recovery, flexibility to recover unexpected
11 costs, attractiveness to investors, and capital support during construction to reduce cash
12 flow pressure; and (4) regulatory independence and insulation that supports the utility's
13 long-term ability to receive financing and reduce the risk of political intervention to
14 protect the utility's credit profile, even during a stressful event.²

15 **Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THESE EXAMPLES?**

16 A. It is reasonable to conclude that a constructive regulatory climate will positively impact
17 credit assessments and resulting credit ratings. On the other hand, decisions in the
18 ratemaking context that negatively impact a rating agency's risk assessment will also
19 negatively impact resulting credit ratings. As such, regulatory decision making related
20 to capital structure, cost of debt, ROE, and cost recovery mechanisms impact not only
21 a utility's current and future cash flow, but also its credit metrics.

² See Direct Exhibit TDS-3, S&P Specific-Sector Corporate Methodology for the Regulated Utilities Industry, April 4, 2024.

1 **Q. HOW DO CREDIT RATINGS AFFECT A COMPANY’S ABILITY TO ISSUE**
2 **DEBT?**

3 A. Credit ratings affect a company’s ability to issue debt in two ways. First, the lower the
4 credit rating, the greater the credit risk premium required from investors. Second, a
5 lower rating limits the number of potential investors interested in a company’s debt
6 securities, effectively reducing the size of the market. Both circumstances tend to
7 increase the overall cost of debt.

8 **Q. PLEASE EXPLAIN HOW BHC’S CREDIT RATINGS IMPACT BH**
9 **NEBRASKA GAS.**

10 A. BH Nebraska Gas does not directly access the credit markets, so its liquidity needs and
11 sources of financing on a going-forward basis are provided through BHC. In general, a
12 strong investment-grade credit rating at BHC results in more favorable credit terms,
13 greater access to capital, and a lower cost of debt overall. In addition, an investment
14 grade credit rating at BHC will result in lower interest costs for BH Nebraska Gas,
15 which benefits its customers. Finally, a strong credit rating affords BHC the financial
16 strength to attract funding for investments in BH Nebraska Gas’ utility operating
17 system to meet the needs of customers.

18 **Q. PLEASE DESCRIBE THE FINANCIAL INTEGRITY OF BH NEBRASKA**
19 **GAS.**

20 A. The financial integrity of BH Nebraska Gas, like many other utilities, has faced
21 challenges as of late due to inflation, extreme winter weather events, and geopolitical
22 uncertainty. The goal of BH Nebraska Gas is to establish and sustain strong stand-alone
23 financial integrity and to positively contribute to the maintenance of financial integrity

1 and investment grade credit for BHC. If BHC's credit metrics are weak, its ability to
2 obtain short and long-term financing, favorable financing costs, and vendor payment
3 terms, including collateral requirements, will be negatively impacted.

4 **Q. PLEASE DESCRIBE HOW BH NEBRASKA GAS' AUTHORIZED CAPITAL**
5 **STRUCTURE, COST OF DEBT, AND ROE IMPACT ITS FINANCIAL**
6 **INTEGRITY.**

7 A. These factors have an important impact on the financial integrity of BH Nebraska Gas,
8 which in turn is important to the overall financial health and integrity of BHC. First,
9 the authorized ROE and capital structure impact the ability to fund capital investments
10 with internally generated funds. Investors expect BHC, via its subsidiaries, to be able
11 to internally generate cash from operations to substantially fund its capital investments
12 instead of accessing additional capital in the markets. Second, the capital structure and
13 WACC have an impact on credit metrics. Several financial and credit metrics are driven
14 by cash flow and the ability of BHC to cover interest and debt obligations in the future.
15 A lower equity ratio and ROE reduce cash flow metrics, such as the Funds from
16 Operations ("FFO") to debt ratio and the FFO to interest ratio. These cash flow metrics
17 are utilized by rating agencies to measure a company's ability to service and repay its
18 debt obligations. Finally, the ability of BH Nebraska Gas to recover its costs in a timely
19 manner and earn its ROE is expected by both investors and rating agencies. These
20 parties take into consideration the nature of the regulatory environment in which a
21 company operates to assess business risk and the ability of the company to meet future
22 obligations.

1 **Q. PLEASE DESCRIBE HOW BH NEBRASKA GAS IMPACTS THE**
2 **CREDITWORTHINESS OF BHC.**

3 A. BHC is the parent holding company of multiple gas and electric utilities; each of BHC's
4 subsidiaries is integral to the whole. BHC, as the parent company, does not have any
5 operating assets and does not generate any cash flow to support credit metric
6 assessments on its own. The creditworthiness of BHC is based on the financial
7 integrity, regulatory environment, and operational performance of all its subsidiaries,
8 including BH Nebraska Gas. Each subsidiary is responsible for maintaining its
9 financial integrity and supporting BHC's commitment to maintain solid investment-
10 grade credit ratings.

11 In support of BHC's investment-grade credit ratings, BH Nebraska Gas
12 generally targets a balanced equity-to-capitalization level of approximately 50% to
13 52% and expects to maintain this equity-to-capitalization ratio through ongoing active
14 management of the capitalization for BH Nebraska Gas. Because an investment grade
15 credit rating provides the basis for access to capital markets on reasonable terms and
16 conditions, it is important that BH Nebraska Gas positively contributes to the
17 creditworthiness and financial integrity of BHC. In sum, the financial integrity of BH
18 Nebraska Gas is a key contributor to the overall financial health and integrity of BHC.

19 **V. CAPITAL STRUCTURE**

20 **Q. WHAT CAPITAL STRUCTURE IS USED FOR PURPOSES OF DEVELOPING**
21 **THE REVENUE REQUIREMENT IN THIS PROCEEDING?**

22 A. The Company proposes to use 50.52 % equity and 49.48% long-term debt as its capital
23 structure for the Test Year ending December 31, 2025. This is the capital structure

1 incorporated into the Test Year RRS model provided as Direct Exhibit SKJ-2 to the
2 Direct Testimony of Ms. Samantha K. Johnson.

3 **Q. PLEASE EXPLAIN WHY IT IS APPROPRIATE TO USE THE CAPITAL**
4 **STRUCTURE FOR BH NEBRASKA GAS FOR THE TEST YEAR ENDING**
5 **DECEMBER 31, 2025.**

6 A. The proposed capital structure is appropriate because it is reflective of the funding
7 levels necessary to support BH Nebraska Gas' gas utility operations during the Test
8 Year and beyond. Additionally, the proposed capital structure matches the underlying
9 rate base included in the Test Year Revenue Requirement that is the basis for the
10 proposed rates in this proceeding.

11 **Q. HOW WAS THE PROPOSED CAPITAL STRUCTURE DERIVED?**

12 A. The Test Year capital structure was derived by starting with the actual December 31,
13 2024, per-book capital structure, which consisted of 50.37% equity and 49.63% long-
14 term debt, and assessing anticipated capital funding needs through December 31, 2025,
15 as shown on Statement G of Direct Exhibit SKJ-2. This takes into account expected
16 rate base growth and financing such growth through a balanced mixture of debt (i.e.,
17 intercompany debt assignments) and equity (i.e., net income after dividends, or
18 "retained earnings" and equity infusions) in order to maintain a balanced equity-to-
19 capitalization level of approximately 50% to 52%.

20 **Q. WHAT CAPITAL STRUCTURE WAS APPROVED BY THE COMMISSION**
21 **IN THE LAST BH NEBRASKA GAS RATE PROCEEDING IN 2020?**

22 A. In the 2020 rate proceeding, the Commission approved a settlement agreement which
23 incorporated a capital structure of 50% equity and 50% long-term debt.

1 **Q. IS THE REQUESTED CAPITAL STRUCTURE IN THIS PROCEEDING**
2 **REASONABLE?**

3 A. Yes. The Company targets a 50% to 52% equity-to-capitalization level, in line with
4 how gas utility operating companies are commonly capitalized across the industry. This
5 is a reasonable capitalization level and appropriate to support BHC's investment grade
6 rating. As discussed in the direct testimony of Mr. McKenzie, the Company's proposed
7 equity level is comparable with the equity levels approved for other gas utilities over
8 the past eight quarters ending December 31, 2024, which reflected an average approved
9 equity level of 53.02%. Further, the Company's proposed capital structure in this
10 proceeding is in line with the capital structure authorized by the Commission in BH
11 Nebraska Gas' last rate proceeding in 2020.

12 **Q. WOULD IT BE APPROPRIATE FOR THE COMMISSION TO ADOPT THE**
13 **CAPITAL STRUCTURE OF BHC, BH NEBRASKA GAS' PARENT**
14 **COMPANY, FOR PURPOSES OF SETTING RATES IN THIS RATE**
15 **REVIEW?**

16 A. No. BH Nebraska Gas' capital structure for the Test Year best reflects the actual capital
17 structure BH Nebraska Gas expects to maintain on a stand-alone basis to support its
18 gas utility operations. In contrast, financing decisions at the parent entity consider non-
19 regulated business lines, non-utility assets, and other ring-fenced utilities (gas and
20 electric). Such non-utility considerations make the parent capital structure an
21 inappropriate measure of the capitalization requirements of BH Nebraska Gas.

1 **Q. WHAT PROCESS DO YOU FOLLOW TO ENSURE THAT BH NEBRASKA**
2 **GAS IS PROPERLY CAPITALIZED?**

3 A. On a quarterly basis, the capital structure of each regulated utility subsidiary is
4 reviewed. Since BHC finances the investments of its regulated utilities with a
5 combination of long-term debt and equity based on a targeted balanced capital
6 structure, adjustments are made periodically as changes in rate base and capital
7 structure mix occur. The current capital structure is analyzed to determine if the utility
8 has a need for more long-term debt or equity to finance its net investments or,
9 alternatively, if the utility has cash flow to pay a dividend to the parent or pay down
10 debt.

11 **Q. PLEASE EXPLAIN HOW BH NEBRASKA GAS' FINANCING PRACTICES**
12 **AND PROPOSED CAPITAL STRUCTURE ARE IN THE PUBLIC INTEREST.**

13 A. BH Nebraska Gas' financing practices focus on maintaining financial integrity and
14 the ability to access capital, when needed, at a reasonable cost. The level of equity
15 capital committed by BHC to BH Nebraska Gas, prudently mitigates business risk
16 particularly in times of market volatility. The level of debt in the capital structure
17 achieves cost-effective debt financing utilizing economies of scale in the debt
18 marketplace while matching terms and maturities with the underlying long-lived
19 utility assets supported by the financing.

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VI. COST OF LONG-TERM DEBT

Q. WHAT IS THE PROPOSED COST OF LONG-TERM DEBT FOR BH NEBRASKA GAS?

A. As shown in the RRS model provided in Direct Exhibit SKJ-2, Schedule G-1 the Company proposes to use the cost of long-term debt for BH Nebraska Gas of 4.71%, which is BH Nebraska Gas' anticipated cost of debt as of December 31, 2025, the end of the Test Year. As discussed below, the proposed cost of long-term debt of 4.71% represents a small increase to the Company's current cost of debt of 4.61% due to a planned refinancing in the latter half of 2025.

Q. PLEASE EXPLAIN THE METHODOLOGY FOR DETERMINING THE COST OF LONG-TERM DEBT THAT BHC ASSIGNS TO BH NEBRASKA GAS AND OTHER BHC SUBSIDIARIES.

A. The cost of long-term debt for BH Nebraska Gas and other BHC subsidiaries is determined based on the weighted-average cost of all long-term debt issued and outstanding by BHC excluding the indentures secured by the assets of Black Hills Power, Inc. and Cheyenne Light, Fuel and Power Company under first-mortgage bonds. With the exception of those indentures, none of BHC's subsidiaries issue their own debt securities. Under this method, the cost of long-term debt for all subsidiaries is based on the weighted-average cost of debt of all BHC debt instruments described above.

1 **Q. PLEASE EXPLAIN HOW ISSUING DEBT AT BHC ON BEHALF OF BH**
2 **NEBRASKA GAS PRODUCES ECONOMIES OF SCALE WHICH BENEFITS**
3 **BH NEBRASKA GAS AND ITS CUSTOMERS.**

4 A. It is more efficient and cost beneficial to customers for long-term debt to be issued and
5 serviced at the BHC parent level than at the individual subsidiary utility level. Due to
6 the size of many of BHC's regulated utilities, including BH Nebraska Gas, it is more
7 cost effective and efficient to issue larger tranches of index-eligible debt at the parent
8 level and make assignments of this debt to the various subsidiaries. Index-eligible debt
9 is more liquid and provides investors with the ability to trade the instrument more
10 efficiently in the market, if necessary. This liquidity is viewed positively by bond
11 investors. The larger and more liquid the bond instrument is, the more opportunities
12 an investor has to trade the instrument.

13 For example, the Barclays Investment Grade Index, which is the benchmark
14 index for investment grade debt, requires a minimum tranche size for index inclusion
15 of \$300 million. Many investors use this index to benchmark their debt and will not
16 invest in non-index eligible bonds. Fewer investors translate to less liquidity and higher
17 bond costs for issuers. Because the majority of BHC's subsidiaries, including BH
18 Nebraska Gas, do not have financing needs that reach a \$300 million in debt minimum,
19 BHC aggregates its financing needs for its subsidiaries, issues index-eligible debt
20 tranches at the parent level, and makes intercompany debt assignments to the
21 subsidiaries.

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1 **Q. WHY DOES THIS WEIGHTED AVERAGE COST OF DEBT ASSIGNMENT**
2 **METHODOLOGY REMAIN REASONABLE?**

3 A. Under this methodology, each subsidiary receives assigned debt at the same interest
4 rate based on the parent company's weighted-average cost of debt. This allows
5 customers to benefit from the economics of scale in issuing index-eligible bonds while
6 making BHC whole for its debt financing costs.

7 **Q. WHAT WAS BH NEBRASKA GAS' COST OF LONG-TERM DEBT AS OF**
8 **DECEMBER 31, 2024, THE END OF THE BASE YEAR?**

9 A. As of December 31, 2024, BH Nebraska Gas' cost of long-term debt was 4.61%.

10 **Q. HAS BHC COMPLETED ANY NEW LONG-TERM DEBT ISSUANCES SINCE**
11 **DECEMBER 31, 2024, OR DOES BHC PLAN TO ISSUE NEW DEBT PRIOR**
12 **TO THE TEST YEAR ENDING DECEMBER 31, 2025?**

13 A. BHC has not issued any new long-term debt since December 2024. BHC's next bond
14 maturity is in January 2026, and BHC is evaluating the timing and amount for that
15 refinancing. Within BH Nebraska Gas' proposed cost of long-term debt of 4.71%, the
16 Company has included a planned refinancing in the latter half of 2025 in the continued
17 higher interest rate environment. BH Nebraska Gas will update the status of this
18 financing at the appropriate time in the proceeding.

19 **VII. RETURN ON EQUITY**

20 **Q. WHO IS THE PRIMARY ROE WITNESS IN THIS CASE AND WHAT IS THE**
21 **RANGE OF THE ROE BEING RECOMMENDED?**

22 A. BH Nebraska Gas witness Mr. Adrien McKenzie provides the ROE analysis in this
23 case. Mr. McKenzie explains his application of a number of recognized methodologies

1 for estimating the cost of capital and recommends a cost of equity range from 10.0%
2 to 11.0%.

3 **Q. BASED ON THIS ANALYSIS, WHAT ROE IS BH NEBRASKA GAS**
4 **REQUESTING IN THIS RATE REVIEW FILING?**

5 A. The Company requests a ROE of 10.5%. Company witness Mr. McKenzie is offering
6 testimony that supports BH Nebraska Gas' requested ROE.

7 **Q. WHEN THE REQUESTED ROE IS CONSIDERED TOGETHER WITH THE**
8 **COMPANY'S CAPITAL STRUCTURE AND COST OF DEBT WHAT IS THE**
9 **RESULTING WACC?**

10 A. BH Nebraska Gas is requesting a WACC of 7.63%.

11 **VIII. PENSION AND RETIREE HEALTHCARE COSTS**

12 **Q. PLEASE PROVIDE AN OVERVIEW OF TOPICS YOU WILL COVER**
13 **RELATING TO PENSION AND RETIREE HEALTHCARE.**

14 A. I will provide an overview of BHC's pension plan and retiree healthcare plan (a/k/a
15 Other Postretirement Employee Benefits or ("OPEB")). In addition, I will describe and
16 support the pension expense and retiree healthcare expense included in the RRS.

17 **Q. PLEASE PROVIDE AN OVERVIEW OF BHC'S PENSION PLAN.**

18 A. BHC has one defined benefit pension plan, the Black Hills Corporation Retirement
19 Plan ("Pension Plan"). The Pension Plan covers certain eligible employees of BH
20 Nebraska Gas and employees of BHSC who provide services in support of BH
21 Nebraska Gas' business operations. The benefits for the Pension Plan are based on
22 years of service and calculations of average earnings during a specific period prior to

1 retirement. The Pension Plan is closed to new employees and frozen for certain
2 employees who did not meet age and service-based criteria, as of January 1, 2010.

3 **Q. PLEASE DESCRIBE BHC'S CONTINUING OBLIGATIONS REGARDING**
4 **THE PENSION PLAN.**

5 A. Although the pension plan is closed to new entrants, certain active participants who
6 met age and years of service criteria at the time the plan was closed to new entrants
7 continue to accrue benefits which impacts the ongoing financial obligation.
8 Additionally, BHC has a continuing obligation to oversee the pension plan to ensure
9 adequate funding will be available for future benefit payments to the program
10 participants at retirement. This ongoing obligation requires BHC to complete pension
11 plan valuations to determine the financial impact to assets, liabilities, expenses, and
12 gains and losses of the plan. BHC engages Aon Consulting, Inc. ("Aon") as its actuary
13 to complete the pension valuation process.

14 **Q. PLEASE PROVIDE AN OVERVIEW OF BHC'S RETIREE HEALTHCARE**
15 **PLAN.**

16 A. BHC has one retiree healthcare plan, the Black Hills Corporation Retiree Healthcare
17 Plan ("Healthcare Plan"), for employees who meet certain age and service requirements
18 at retirement. Healthcare Plan benefits are subject to premiums, deductibles, co-
19 payment provisions, and other limitations. Pre-65 retirees as well as a grandfathered
20 group of post-65 retirees receive their retiree healthcare benefits through the BHC self-
21 insured retiree healthcare plans. Healthcare coverage for post-65 Medicare-eligible
22 retirees is provided through an individual market healthcare exchange.

1 **Q. PLEASE DESCRIBE WHAT BH NEBRASKA GAS IS REQUESTING TO**
2 **RECOVER FOR PENSION AND RETIREE HEALTHCARE EXPENSE.**

3 A. BH Nebraska Gas is requesting recovery of the Test Year net periodic pension expense
4 and net periodic retiree healthcare expense. The pension and retiree healthcare
5 expenses are specifically comprised of net periodic pension and net periodic retiree
6 healthcare costs accounted for under an accrual method in accordance with Generally
7 Accepted Accounting Principles (“GAAP”). Every January, Aon prepares and provides
8 an updated actuarial study of BHC’s pension and retiree healthcare plans that forms the
9 basis of the Company’s pension and retiree healthcare expense accruals to be recorded
10 that year in accordance with Accounting Standards Codification (“ASC”) 715.

11 The Test Year net periodic pension expense and retiree healthcare expense
12 requested for recovery includes the accrual amounts for fiscal year 2025 based on the
13 January 2025 actuarial study.

14 **Q. PLEASE EXPLAIN THE KEY ASSUMPTIONS USED TO DETERMINE BH**
15 **NEBRASKA GAS’ PENSION AND RETIREE HEALTHCARE EXPENSES**
16 **EACH YEAR.**

17 A. Several assumptions, which are reviewed and approved by BHC, are incorporated by
18 Aon when completing pension and retiree healthcare valuations and determining the
19 forecasted financial impact and future annual pension and retiree healthcare expense.
20 Key assumptions include discount rates, which are based on yields for high-quality
21 corporate bonds, expected rates of return on plan assets based on current fixed income
22 and equity capital market assumptions and asset allocation targets, and a mortality table
23 approved and provided intermittently by the Society of Actuaries. Other pension

1 valuation assumptions related to plan participants include, but are not limited to, rate
2 of pay, retirement rates, withdrawal rates, and rate of inflation. Additionally, specific
3 to retiree healthcare, assumptions regarding healthcare cost trends, retirement rates,
4 mortality tables, and medical participation rates are considered.

5 **Q. PLEASE DESCRIBE THE COMPONENTS OF PENSION AND RETIREE**
6 **HEALTHCARE NET PERIODIC COSTS.**

7 A. Pension and retiree healthcare expense accruals for net periodic expense are made up
8 of several specific sub-components, including:

- 9 1. Service cost - the value of benefits that employees will earn during the
10 current year;
- 11 2. Interest cost- changes in the present value of the benefits that plan
12 participants have earned in previous years;
- 13 3. Expected return on assets - investment earnings on plan assets that are
14 expected to be earned during the year;
- 15 4. Amortization of unrecognized net gains and losses - recognition of costs (or
16 income) from experience that differs from the assumptions (e.g., discount
17 rate changes, investment earnings different than assumed); and
- 18 5. Amortization of unrecognized prior service cost - recognition of the cost of
19 benefit changes the plan sponsor provides for service the employees have
20 already performed.

21

1 **Q. PLEASE SUMMARIZE THE PENSION AND RETIREE HEALTHCARE**
2 **EXPENSE AMOUNT INCLUDED IN THE TEST YEAR REVENUE**
3 **REQUIREMENT.**

4 A. BH Nebraska Gas included \$614,407 in pension-related costs and \$809,999 in retiree
5 healthcare-related costs in the Test Year revenue requirement. Together, pension and
6 retiree healthcare costs included in the Test Year revenue requirement total \$1,424,406.
7 The breakdown is provided in Direct Exhibit SKJ-2, Schedule H-6.

8 **IX. CONCLUSION**

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes.

STATE OF SOUTH DAKOTA)
) SS
COUNTY OF PENNINGTON)

I, Tom Stevens, 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.


Tom Stevens

Subscribed and sworn to before me this 11th day of April, 2025.





Notary Public

My Commission Expires:

My commission expires June 22, 2029