

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

**In the Matter of the Application of Black
Hills/Kansas Gas Utility Company, LLC,
d/b/a Black Hills Energy, for Approval of
the Commission to Make Certain Changes
in its Rates for Natural Gas Service**

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Docket No. 25-BHCG-298-RTS

REBUTTAL TESTIMONY OF THOMAS D. STEVENS

ON BEHALF OF

**BLACK HILLS/KANSAS GAS UTILITY
COMPANY, LLC, d/b/a BLACK HILLS ENERGY**

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List of Acronyms

436 Docket	Docket No. 01-WSRE-436-RTS
BHC	Black Hills Corporation
BHSC	Black Hills Service Company
Black Hills OR “the Company”	Black Hills/Kansas Gas Utility Company, LLC d/b/a Black Hills Energy
Commission	Kansas Corporation Commission
CURB	Citizens Utility Ratepayers Board
GAAP	Generally Accepted Accounting Principles
<i>Pro Forma Period</i>	October 1, 2024, through September 30, 2025
ROE	Return on Equity
RRA	Regulatory Research Associates
SEC	Securities & Exchange Commission
Staff	Staff of the Kansas Corporation Commission
Westar Energy	Western Resources

1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Thomas D. Stevens. My business address is 7001 Mt. Rushmore Rd. Rapid City,
4 South Dakota 57702.

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

6 A. I am employed by Black Hills Service Company, LLC (“BHSC”), a wholly owned
7 subsidiary of Black Hills Corporation (“BHC”). My title is Vice President, Treasurer.

8 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

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

11 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

12 A. Yes, I filed Direct testimony in this proceeding on February 3, 2025. See Direct Testimony
13 and Exhibits of Thomas D. Stevens.

14 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR REBUTTAL TESTIMONY?**

15 A. Yes, I am sponsoring Confidential KSG Rebuttal Exhibit TDS-1 which is a schedule
16 analyzing Black Hills’ cash flows from utility operations from 2021 through 2024,
17 demonstrating how the Company finances its utility investments for providing retail natural
18 gas service in Kansas.

19 **II. PURPOSE OF REBUTTAL TESTIMONY**

20 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

21 A. The purpose of my Rebuttal testimony is to respond to the capital structure, cost of debt and
22 cost of equity recommendations presented in the Direct Testimony of Mr. Adam Gatewood
23 submitted on behalf of Staff of the Kansas Corporation Commission (“Staff” and

1 “Commission” respectively), and Dr. Randall Woolridge, submitted on behalf of the
2 Citizen’s Utility Ratepayer Board (“CURB”). Company witnesses Eyre, Daniel, and
3 McKenzie also address cost of capital in their Rebuttal testimonies. I also respond to the
4 recommendations of Staff witness Mr. Bill Baldry and CURB witness Ms. Audrey Benham
5 regarding pension and retiree healthcare expenses and the trackers related to those expenses.

6 **Q. PLEASE SUMMARIZE YOUR PRINCIPAL CONCLUSIONS ON THE ISSUES OF**
7 **CAPITAL STRUCTURE AND COST OF CAPITAL.**

8 A. The Commission should reject the recommendations of Staff and CURB and adopt the
9 7.63% rate of return (“ROR”) proposed by Black Hills as its cost of capital, including Black
10 Hills’ capital structure of 50.44% common equity and 49.56% long-term debt, a weighted
11 average cost of debt of 4.71%, and a return on equity of 10.5%.

12 While CURB’s recommended capital structure is very close to the Company’s,
13 Staff’s use of the capital structure of Black Hills’ parent company does not represent a
14 reasonable capital structure for Black Hills’ Kansas utility operations. Mr. Gatewood
15 presents no evidence that Black Hills’ capital structure is imprudent or results in cross-
16 subsidization of unregulated businesses. Instead, he relies on the Commission’s policy of
17 “applying the capital structure which will result in the lowest overall cost of capital that is
18 representative of utility operations,” but disregards the actual manner in which Black Hills
19 finances its utility operations. Consistent with Staff’s and the Commission’s analysis in other
20 cases, the cash flow analysis included in Confidential KSG Rebuttal Exhibit TDS-1
21 demonstrates that Black Hills’ equity is a function of earnings retained in the business and
22 is not manufactured or artificial. The prudence standard does not require that the Company’s
23 capital structure be the lowest cost capital structure but only that it is the result of

management decisions that were reasonable at the time they were made. When properly applied, the prudence standard allows for a range of reasonable capital structures – not just the one with the lowest cost. Black Hills’ proposed capital structure of 50.44% equity is in line with industry standards for a gas utility operating company and is representative of Black Hills’ utility operations as demonstrated by a historical cash flow analysis of the Company included in Confidential KSG Rebuttal Exhibit TDS-1.

III. CAPITAL STRUCTURE AND COST OF CAPITAL

Q. PLEASE SUMMARIZE THE PROPOSALS AND RECOMMENDATIONS REGARDING THE COMPANY’S CAPITAL STRUCTURE AND COST OF CAPITAL IN THIS PROCEEDING.

A. Table TDS-1 below compares the capital structure and cost of capital recommendations of Staff and CURB in this case to Black Hills’ proposal.

Table TDS-1: SUMMARY OF PROPOSALS AND RECOMMENDATIONS

KCC Docket No.	Parties Position	Capital Structure	ROE	Weighted ROE	Cost of Long-term debt	WACC
25-BKHG-298-RTS	Black Hills Direct & Rebuttal	50.44% (Equity)	10.50%[1]	5.30%	4.71%	7.63%
		49.56% (Debt)				
25-BKHG-298-RTS	Staff Recommendation	45.76% (Equity)	9.70%	4.44%	4.61%[2]	6.94%
		54.24% (Debt)				
25-BKHG-298-RTS	CURB Recommendation	50% (Equity)	9.50%	4.75%	4.71%	7.11%
		50% (Debt)				

[1] Mr. Gatewood’s Direct Testimony 5:4-5 incorrectly reflects a 10.25% ROE. The correct requested ROE is 10.50%.

[2] Mr. Gatewood’s Direct Testimony 4:5 recommends a cost of debt of 4.44% and the table at Gatewood 4:9-10 recommends a cost of debt of 4.61%.

1 **Q. WHAT CAPITAL STRUCTURES DO STAFF AND CURB RECOMMEND FOR**
2 **SETTING RATES IN THIS PROCEEDING?**

3 A. As shown in Table TDS-1 above, CURB witness Woolridge proposes a capital structure of
4 50% equity and 50% debt, nearly in line with the Company's capital structure proposed in
5 this proceeding. Staff Witness Gatewood recommends the Commission adopt the capital
6 structure of Black Hills' corporate parent, BHC, instead of using Black Hills' capital
7 structure as recommended by the Company. Mr. Gatewood states he is using BHC's capital
8 structure as of February 28, 2025. However, he actually uses BHC's capital structure as of
9 December 31, 2024, as shown in the footnote to the table on page 41 of his Direct Testimony.
10 Staff's recommendation to disregard Black Hills' capital structure results in a recommended
11 capital structure of 45.76% equity and 54.24% debt.

12 **Q. HAS BLACK HILLS REVISED ITS CAPITAL STRUCTURE PROPOSAL SINCE**
13 **ISSUING ITS DIRECT TESTIMONY?**

14 A. No. Black Hills' actual capital structure as of the most recent quarter ending March 31, 2025,
15 is 50.43% equity and 49.57% debt, nearly identical to the Company's proposed capital
16 structure in this proceeding which was based on the *Pro Forma Period* ending September
17 30, 2025. The Company would not be opposed to using Black Hills' actual capital structure
18 as of March 31, 2025, of 50.43% equity and 49.57% debt, which represents known and
19 measurable changes to the capital structure that the Company has established to support rate
20 base.

1 **Q. WHAT IS THE COMPANY’S RESPONSE TO STAFF’S CAPITAL STRUCTURE**
2 **RECOMMENDATION TO DISREGARD BLACK HILLS’ CAPITAL**
3 **STRUCTURE?**

4 A. The Company disagrees with Staff’s recommendation. Black Hills’ practice is to manage
5 the Company’s capitalization to be representative of the way in which it finances utility
6 investments and to support the organization’s financial integrity. BHC is committed to
7 maintaining solid investment-grade credit ratings, which means maintaining financial
8 integrity and stability within each of its businesses. As discussed in my Direct Testimony,
9 Black Hills aims for a balanced equity-to-capitalization ratio through continuous oversight
10 and strategic financial management. In determining an appropriate capital structure, Black
11 Hills considers factors including the utility’s scale, operational and financial risks, capital
12 expenditure needs, and cash flow requirements. These considerations help ensure that the
13 capital structure supports both operational needs and financial metrics used by credit rating
14 agencies. The capital structure reflected on Black Hills’ financial statements accurately
15 represents the sources of funding used to support its operations and is substantiated by the
16 Company’s cash flow analysis presented in Confidential KSG Rebuttal Exhibit TDS-1.

17 In recommending the imputation of BHC’s capital structure, Staff witness Gatewood
18 does not demonstrate that Black Hills’ capital structure is imprudent and does not give proper
19 deference to management’s oversight and financing decisions that go into properly
20 coordinating and maintaining the capitalization reflected on Black Hills’ balance sheet. Staff
21 instead asks the Commission to adopt the capital structure of Black Hills corporate parent,
22 BHC, presumably because it has more leverage. Simply put, Staff’s recommendation is not
23 representative of the way in which Black Hills finances utility investments for providing

1 retail natural gas service in Kansas. Moreover, as shown by Company Witness Mr.
2 McKenzie in his Rebuttal Testimony, and as discussed later in my testimony, the capital
3 structure recommended by Mr. Gatewood for purposes of setting Black Hills' rates is not
4 supported by industry standards, particularly as evidenced by the average debt and equity
5 levels maintained by Staff's proxy group and capital structures authorized for other natural
6 gas utilities.

7 **Q. HAS STAFF PRESENTED TESTIMONY THAT WOULD JUSTIFY THE**
8 **IMPUTATION OF THE PARENT CAPITAL STRUCTURE AS OPPOSED TO**
9 **USING THE UTILITY'S CAPITAL STRUCTURE?**

10 A. No. Staff's primary argument to impute the parent capital structure is that it can result in a
11 lower cost of capital for ratemaking because the parent capital structure has more debt than
12 the capital structure of Black Hills. In supporting this recommendation, Staff disregarded
13 entirely my Direct Testimony explaining why the parent capital structure is not
14 representative of Black Hills' Kansas utility operations, including a discussion of other
15 ring-fenced utilities, unregulated subsidiaries and non-utility assets that collectively make
16 up BHC's consolidated capital structure. While Mr. Gatewood references the Commission's
17 policy of "applying the capital structure, which will result in the lowest overall cost of capital
18 that is representative of utility operations," Staff failed to demonstrate that BHC's
19 consolidated capital structure is representative of utility operations in Kansas. Black Hills
20 generates its own earnings, employs its own personnel, and manages its own operations. As
21 explained in my Direct Testimony, Black Hills finances its operations and maintains a
22 balanced capital structure in line with industry standards by retaining some or all of its
23 earnings and through debt assignments and equity infusions, if necessary, from BHC.

1 **Q. EXPLAIN HOW BLACK HILL’S CASH-FLOW ANALYSIS SHOWS THAT ITS**
2 **ACTUAL BOOKED CAPITAL STRUCTURE ACCURATELY REPRESENTS THE**
3 **FUNDS USED TO FINANCE BLACK HILLS’ KANSAS UTILITY OPERATIONS.**

4 A. The cash-flow analysis that is included in Confidential KSG Rebuttal Exhibit TDS-1 is based
5 upon the Generally Accepted Accounting Principles (GAAP) financial information of the
6 operational performance of the Kansas utility from 2021 to 2024, the time period since the
7 Company’s last rate review, and supports the actual booked capital structure proposed by
8 Black Hills in this case. This analysis demonstrates that Black Hills’ proposed capital
9 structure in this rate proceeding directly represents the actual conditions and operations of
10 the Kansas utility and achieves the policy objective cited by Staff of producing the lowest
11 overall cost of capital that is representative of utility operations.

12 **Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THE BLACK HILLS KANSAS**
13 **CASH FLOW ANALYSIS THAT DEMONSTRATE THAT BLACK HILLS’**
14 **BOOKED CAPITAL STRUCTURE ACCURATELY REPRESENTS THE FUNDS**
15 **USED TO FINANCE THE COMPANY’S KANSAS UTILITY OPERATIONS?**

16 A. The cumulative 2021-2024 GAAP financial data specific to Black Hills in Confidential KSG
17 Rebuttal Exhibit TDS-1 can be summarized as follows:

- 18 • Investing or capital investing activities of **_____** million exceeded operating
19 cash flows of **_____** million which means that operating cash flows have been
20 fully reinvested in the business since the last rate review to fund prudent capital
21 investments in the Kansas utility system to support customers’ needs;

- 1 • Cumulative equity growth (net income less dividends) equaled **_____** million
2 (51.32% of the capitalization growth) whereas cumulative long-term debt growth
3 (notes payable) equaled **_____** million (48.68% of the capitalization growth)
4 which allowed for maintenance of Black Hills' balanced 50-52% equity capital
5 structure.
- 6 • Cumulative dividends to parent of **_____** million equate to an effective annual
7 dividend yield on equity capital of approximately **_____** which is reasonable
8 and necessary to support BHC's historic annual dividend yield to its ultimate
9 shareholders; the dividend payout ratio (cash dividends divided by net income)
10 equates to **_____** which is well below BHC's targeted dividend payout ratio of
11 55-65% (which is comparable to peers); and,
- 12 • The data does not suggest imprudent treasury management or any cross-subsidization
13 of unregulated businesses; the equity buildup is not manufactured or artificial but
14 rather is a function of earnings retained in the business.

1 **Q. HAVE THE COMMISSION AND ITS STAFF RELIED UPON CASH-FLOW**
2 **STUDIES IN OTHER KANSAS UTILITY RATE CASES IN ORDER TO**
3 **EVALUATE AND DETERMINE WHETHER THE UTILITY’S CAPITAL**
4 **STRUCTURE ACCURATELY REPRESENTED THE FUNDS USED TO FINANCE**
5 **THAT UTILITY’S OPERATIONS AND THEREFORE SHOULD BE USED TO SET**
6 **RATES INSTEAD OF THE PARENT COMPANY’S CAPITAL STRUCTURE?**

7 A. Yes. In Docket No. 01-WSRE-436-RTS (“436 Docket”), the Staff conducted a cash-flow
8 analysis to determine what funds were used to finance Western Resources’ utility operations
9 and used that cash-flow analysis to support Staff’s proposed capital structure to set rates in
10 that case instead of using the parent company’s capital structure. Staff submitted that its
11 cash-flow analysis was based upon actual financial information of the operational
12 performance of the utility and was therefore not arbitrary, speculative, or based upon any
13 financial information specific to the utility’s parent company. In accepting Staff’s cash-flow
14 analysis to support its approved capital structure for the utility, the Commission made the
15 following findings and conclusions:

16 Staff states that (its) capital structure represents the funds that have been
17 used to finance the electric utility and the effect of cash flow generated by
18 the profitable utility business. Staff’s capital structure is based on an
19 extensive cash-flow analysis. (Proctor Direct, 6-13, 17-20, 28-30, Exhs.
20 JMP-1, JMP-4). The Applicants have acknowledged that Staff’s
21 hypothetical capital structure is not unreasonable. (Brief, 14)... Staff’s
22 capital structure is directly related to the actual conditions and operations of
23 the utility and is based on a detailed and thorough cash-flow analysis. The
24 Commission adopts Staff’s proposed capital structure.

25 Order on Rate Application, KCC Docket No. 01-WSRE-436-RTS, issued
26 July 25, 2001, pages 14-15, paragraphs 34-39.

1 As in the 436 Docket, the evidence in this case, including the cash-flow analysis set
2 forth in Confidential KSG Rebuttal Exhibit TDS-1, supports use of Black Hills' actual
3 booked capital structure instead of the parent company's capital structure. The Commission
4 should follow its own precedent and set rates using Black Hills' actual capital structure.

5 **Q. DO YOU AGREE WITH MR. GATEWOOD THAT BLACK HILLS'**
6 **CAPITALIZATION "SUBSTITUTES EQUITY IN THE REVENUE**
7 **REQUIREMENT CAPITAL STRUCTURE FOR WHAT IS, IN REALITY, DEBT**
8 **CAPITAL?"**

9 A. Absolutely not. While Mr. Gatewood correctly acknowledges that Black Hills' capitalization
10 is not a "textbook example of double leverage," he incorrectly asserts that it accomplishes
11 the same end. Double leverage is when a parent raises debt capital to finance equity
12 investments in its subsidiaries. The transformation of parental debt to equity at subsidiaries
13 results in more equity at the subsidiaries than exists in the entire corporation. This is not the
14 case with BHC and Mr. Gatewood has not presented any evidence to support his suggestion
15 that it is. Contrary to the theoretical leap Mr. Gatewood takes, the mere existence of parental
16 level debt does not mean it has been used to fund equity at a utility operating subsidiary. In
17 fact, the cash flow analysis performed by the Company on Confidential KSG Rebuttal
18 Exhibit TDS-1 proves otherwise. Black Hills' equity capital used to finance its utility
19 investments in a balanced manner since the Company's last rate proceeding in 2021 is the
20 result of retaining earnings from its Kansas utility operations. Since 2021, Black Hills has
21 retained nearly **_____** of its earnings and it is these retained earnings that are
22 responsible for the Company maintaining an approximate 50-51 percent equity layer over
23 this time period.

1 **Q. MR. GATEWOOD SUGGESTS THAT BHC CAN ASSIGN WHATEVER CAPITAL**
2 **STRUCTURE AND WHATEVER CORPORATE DEBT TO BLACK HILLS THAT**
3 **IT DECIDES FROM TIME TO TIME. IS THAT CONSISTENT WITH HOW**
4 **BLACK HILLS' CAPITAL STRUCTURE IS BEING MANAGED IN PRACTICE?**

5 A. No. BHC reviews the capital structure of each of its business units on a stand-alone basis
6 each quarter. For Black Hills, BHC targets 50-52 percent equity within the capital structure
7 because this range is considered appropriate to support a solid investment-grade credit rating.
8 This is consistent with Moody's rating methodology for regulated gas and electric utilities,
9 which considers a debt capitalization ratio of 45-55 percent as appropriate for companies
10 rated in the Baa category. As shown on Confidential KSG Rebuttal Exhibit TDS-1, Black
11 Hills has maintained an approximate 50-51 percent equity capital structure over the last four
12 calendar years since its last rate review proceeding. This track record reflects BHC's
13 commitment to manage the capital structure of Black Hills in order to maintain BHC's
14 overall credit rating.

15 **Q. IS STAFF'S RECOMMENDATION TO IMPUTE THE PARENT-LEVEL CAPITAL**
16 **STRUCTURE TO THE UTILITY OPERATIONS OF BLACK HILLS AND**
17 **DISREGARD THE CAPITAL STRUCTURE OF BLACK HILLS' KANSAS**
18 **OPERATIONS CONSISTENT WITH THE COMMISSION'S RING-FENCING**
19 **FINANCIAL COMMITMENTS SET FORTH IN THE ORDER APPROVING**
20 **BLACK HILLS' ACQUISITION OF AQUILA ASSETS IN DOCKET NO. 07-BHCG-**
21 **1063-ACQ?**

22 A. No. As shown in the cash flow analysis, Black Hills has maintained a balanced capital
23 structure consisting of 50-51 percent equity since its last rate proceeding in 2021. Further, it

1 has complied with all ring-fencing financial commitments set forth in the Order approving
2 Black Hills' acquisition of Aquila assets in Docket No. 07-BHCG-1063-ACQ, Order issued
3 May 15, 2008, pages 6-8, paragraph 11. Specifically, Black Hills has not violated the
4 proscription of making any dividend payments to its parent if such dividends reduce Black
5 Hills stand-alone equity level below 40% of its long-term capitalization. Mr. Gatewood's
6 recommendation to ignore Black Hills stand-alone equity level altogether is seemingly at
7 odds with the Commission's ring-fencing provisions in 2008 to maintain a financially
8 healthy stand-alone balance sheet for Black Hills. Ignoring Black Hills' actual capital
9 structure is not good policy for the Commission to adopt.

10 **Q. WHAT IS YOUR RESPONSE TO MR. GATEWOOD'S OBSERVATIONS**
11 **REGARDING BHC'S CAPITAL STRUCTURE FROM 2011 TO 2024, INCLUDING**
12 **THE ACQUISITION OF SOURCEGAS IN 2016?**

13 A. BHC issued additional debt to finance the purchase of SourceGas in 2016. BHC reviewed
14 the SourceGas acquisition and the financing plan with its credit ratings agencies to retain its
15 investment grade rating as BHC focused on reducing its debt capitalization ratio to targeted
16 levels over time. The relatively high debt levels were near-term and BHC has since reduced
17 its debt-to-total capitalization through the issuance of equity and retained earnings and has
18 maintained strong investment grade credit ratings of Baa2 (Moody's) and BBB+ (S&P).

1 **Q. STAFF WITNESS GATEWOOD REFERS TO CERTAIN PREVIOUS RATE CASES**
2 **AND ACQUISITION DOCKETS WHERE STAFF RECOMMENDED AND THE**
3 **COMMISSION AGREED THAT THE PARENT COMPANY’S CAPITAL**
4 **STRUCTURE SHOULD BE USED TO SET RATES FOR A UTILITY SUBSIDIARY.**
5 **SHOULD THE COMMISSION RELY UPON THOSE PREVIOUS RATE CASES IN**
6 **MAKING ITS DECISION IN THIS CASE AND IF NOT, WHY NOT?**

7 **A.** No. The Commission should not rely upon those previous dockets in making its decision in
8 this case. There is a major difference between the facts in this case and the facts in those
9 other cases. In the cases referred to by Mr. Gatewood, the Staff and the Commission were
10 dealing with a utility whose parent company was in financial distress due to the parent
11 company’s investment in unregulated businesses. Whether it was Western Resources (Westar
12 Energy), Aquila, Inc. (formerly Utilicorp United Inc.), or the smaller telephone utilities, the
13 Commission decided to set rates using the parent company’s capital structure on the basis
14 that it would be unfair for utility customers to effectively bail out the utility’s parent company
15 from its financial distress due to its poor investments in unregulated businesses. These parent
16 companies’ credit ratings were high-yield or sub-investment grade, which is significantly
17 different when compared to BHC’s investment grade credit ratings of BBB+ and Baa2. BHC
18 is not financially distressed. It maintains a solid investment grade credit rating. Unlike those
19 other cases, Black Hills is not asking its customers to bail out its parent company from any
20 poor investments in unregulated businesses.

1 **Q. PLEASE DESCRIBE THE RISK PROFILE OF BHC'S UNREGULATED**
2 **BUSINESSES AND NON-UTILITY ASSETS AND ASSOCIATED TARGETED**
3 **CAPITAL STRUCTURE.**

4 A. Even though BHC's non-regulated subsidiaries for the most part is outside the purview of
5 the regulatory construct in Kansas, some color on the specifics may be helpful to the
6 Commission to distinguish BHC from those other cases relied upon by Mr. Gatewood where
7 the Commission decided to use the parent company's capital structure in order to protect
8 utility customers from having to pay for those company's poor investments in unregulated
9 businesses. BHC's non-regulated subsidiaries, including its mining and power generation
10 businesses, are not risky or speculative business ventures, but are, however, subject to
11 competition. Specifically, BHC's non-regulated power generation assets consist
12 predominately of generation assets fully contracted under long-term power purchase
13 agreements to utility off-takers. Similarly, the mining business consists of a coal mine on
14 location of a mine-mouth power generation complex and also enters into long-term all-
15 requirements cost-plus contracts with utility off-takers. BHC's maintenance of actual and
16 targeted capital structures of these businesses take into account required returns on the assets
17 and the cash flow risk from long-term contracts and ongoing operations. Secondly, the actual
18 and targeted capital structures of the non-regulated business and non-utility assets take into
19 account the competitive economic and environmental forces (and risks) at play. As a result,
20 we target capital structure at the power generation business of approximately **_____**
21 debt due to consistent long-term cash flow from purchase power agreements that can be used
22 to finance debt; whereas the mining business is targeted at less than **_____** debt due to
23 the risk of environment, social and governance factors associated with owning a coal mine.

1 This methodology employed at targeting optimal capital structures for BHC's non-regulated
2 subsidiaries is prudent and does not equate to any subsidization by Kansas utility customers.

3 **Q. DOES STAFF DEMONSTRATE THAT BLACK HILLS' ACTUAL CAPITAL**
4 **STRUCTURE IS IMPRUDENT OR UNREASONABLE IN COMPARISON TO THE**
5 **AUTHORIZED CAPITAL STRUCTURES OF OTHER REGULATED GAS**
6 **UTILITIES?**

7 A. No. As shown in Table AMM-5 of Mr. McKenzie's Rebuttal Testimony and Table 8 of his
8 Direct Testimony, the Company's proposed capital structure of 50.44% equity falls squarely
9 within the range of capital structures recently approved for other gas utilities, over the past
10 eight quarters, as reported by Regulatory Research Associates ("RRA"). Black Hills' capital
11 structure falls below the average of 52.67% of allowed common equity and has a more
12 realistic relationship to the marketplace for a gas utility than BHC's capital structure, which
13 reflects the combination of several different subsidiary assets and businesses.

14 **Q. DO YOU BELIEVE A COMMISSION DECISION IN THIS RATE PROCEEDING**
15 **ADOPTING THE RECOMMENDATION OF MR. GATEWOOD WOULD RESULT**
16 **IN A DOWNGRADE IN BHC'S DEBT RATINGS BY THE CREDIT RATING**
17 **AGENCIES?**

18 A. I cannot say for sure; however, if the Commission were to accept the recommendation of
19 Staff, such a result would undermine the key metrics that are central to the credit rating
20 agencies' evaluation of a potential downgrade. As discussed in my Direct Testimony, a
21 significant factor (50%) in rating agencies' credit quality evaluation is the constructive
22 regulatory environment of each respective state. It is important that we receive fair and
23 reasonable treatment to ensure we maintain solid investment credit ratings from all our

1 regulatory jurisdictions. The rating agencies would have to assess the overall impact of a
2 Commission decision upon BHC as a whole since BHC is the primary entity that issues debt
3 securities on behalf of the organization and its operating subsidiaries. The rating agencies
4 consider all of the business units together when evaluating the creditworthiness of BHC,
5 which includes Black Hills within the larger BHC corporate structure.

6 **Q. IS THERE OTHER EVIDENCE THAT SUGGESTS STAFF'S COST OF CAPITAL**
7 **RECOMMENDATION IN THIS CASE IS UNREASONABLE?**

8 A. Yes. As shown in Mr. McKenzie's Rebuttal Testimony, Figure AMM-2, Mr. Gatewood's
9 recommended weighted cost of equity of 4.44% for Black Hills in this case, if approved by
10 the Commission, would be nearly the lowest weighted cost of equity approved by state
11 regulators for gas utilities across the country over the eight quarters ending December 2024.
12 Specific to Kansas, Staff's combined recommendation on capital structure and ROE, if
13 adopted by the Commission, would result in a weighted cost of equity more than 20% lower
14 than all other gas utilities operating in Kansas. There is no evidence to support Staff's
15 recommendation on a stand-alone basis for Black Hills, nor on a comparable basis to other
16 gas utilities operating in Kansas.

17 **Q. WHAT IS THE COMPANY'S RESPONSE TO CURB'S CAPITAL STRUCTURE**
18 **RECOMMENDATION OF 50 PERCENT EQUITY?**

19 A. Although CURB's recommendation of 50% equity is very close to the Company's proposed
20 50.44% equity capital structure, I disagree with several arguments made by Dr. Wooldridge
21 in arriving at CURB's recommended capital structure.

1 **Q. DO YOU AGREE WITH DR. WOOLRIDGE’S CHARACTERIZATION OF BLACK**
2 **HILLS’ PROPOSED CAPITAL STRUCTURE IN HIS TESTIMONY AS**
3 **“HYPOTHETICAL”?**

4 A. No, the capital structure recorded by Black Hills is not hypothetical. It is not a theoretical
5 construct used solely for ratemaking purposes, but rather the actual, booked capital structure
6 that supports all assets on Black Hills’ balance sheet. As I discussed earlier in this testimony,
7 the Company has put forward a capital structure that genuinely reflects the financial
8 resources used to fund its utility operations in Kansas. Further, Black Hills’ actual capital
9 structure as of the most recent quarter ending March 31, 2025, is 50.43% equity and 49.57%
10 debt, nearly identical to the Company’s proposed capital structure in this proceeding which
11 was based on the Pro Forma Period ending September 30, 2025.

12 **Q. DO YOU AGREE WITH DR. WOOLRIDGE’S ASSERTION THAT AN EQUITY**
13 **RATIO FOR BLACK HILLS HIGHER THAN ITS PARENT COMPANY IS**
14 **“EVIDENCE OF DOUBLE LEVERAGE?”**

15 A. No. As I discussed earlier in this testimony, double leverage is when a parent raises debt
16 capital to finance equity investments in its subsidiaries. The transformation of parental debt
17 to equity at subsidiaries results in more equity at the subsidiaries than exists in the entire
18 corporation. This is not the case with BHC and Dr. Wooldridge has not presented any
19 evidence to support his suggestion that it is. In fact, as discussed earlier in response to Staff’s
20 capital structure recommendation, the cash flow analysis performed by the Company on
21 Confidential KSG Rebuttal Exhibit TDS-1 proves otherwise. Black Hills’ equity capital used
22 to finance its utility investments in a balanced manner since the Company’s last rate

1 proceeding in 2021 is the result of retaining earnings from its Kansas utility operations, not
2 the result of parental debt.

3 **Q. DO YOU AGREE WITH DR. WOOLRIDGE THAT IT IS APPROPRIATE TO USE**
4 **THE COMMON EQUITY RATIOS OF THE PARENT HOLDING COMPANIES**
5 **RATHER THAN SUBSIDIARY OPERATING UTILITIES WHEN COMPARING**
6 **WITH BLACK HILLS' PROPOSED CAPITAL STRUCTURE?**

7 A. No. Relying on the parent holding company's equity ratio, simply because they are publicly
8 traded, for a subsidiary operating utility can be misleading due to key structural and financial
9 differences between the two entities. As previously stated, parent companies often have
10 diversified operations. The actual capital structure used to finance the utility's assets should
11 reflect the subsidiary's own balance sheet and risk profile, not that of the parent, and is
12 consistent with this Commission's policy that the capital structure used to set rates be
13 representative of how utility operations are financed.

14 **Q. DO YOU AGREE WITH HOW THE PROXY GROUP'S COMMON EQUITY**
15 **RATIOS WERE CALCULATED IN DR. WOOLRIDGE'S EXHIBIT JRW-3.1**
16 **WHEN COMPARING THEM TO BLACK HILLS PROPOSED CAPITAL**
17 **STRUCTURE?**

18 A. No, the average common equity ratios presented by Mr. Woolridge, in Exhibit JRW-3.1, for
19 the Gas and Combination Proxy Groups include short-term debt (STD) in the calculations.
20 However, Black Hills' proposed capital structure excludes STD, as it is not included within
21 the WACC for purposes of the revenue requirement calculation. As discussed in my Direct
22 testimony, short-term debt is typically used to support working capital and construction work

1 in progress, not to finance long-term assets. Including STD in the capital structure
2 calculation artificially lowers the average equity ratio of Dr. Woolridge's proxy group.

3 **Q. MR. GATEWOOD REJECTS BLACK HILLS' 4.71% COST OF DEBT AND**
4 **INSTEAD USES 4.61%. IS THIS AN APPROPRIATE ADJUSTMENT?**

5 A. No. CURB agrees with the Company's proposed 4.71% cost of debt which is anticipated to
6 be Black Hills' actual cost of debt at the end of the *Pro Forma* Period. However, Staff is
7 recommending a 4.61% cost of debt which is the Company's actual cost of debt at September
8 30, 2024. Mr. Gatewood arrives at 4.61% by excluding a debt issuance that will occur before
9 the end of the *Pro Forma* Period because he deems this debt issuance to be speculative.
10 Contrary to Mr. Gatewood's assertion, the debt issuance is not speculative due to the fact
11 that a portion of the Company's debt is coming due and will need to be refinanced this year.

12 **Q. IS THERE A DISPUTE AS TO THE APPROPRIATE RETURN ON EQUITY**
13 **("ROE") TO BE APPROVED IN THIS CASE?**

14 A. Yes. As shown in Table TDS-1 earlier in my testimony, there are diverging opinions on the
15 issue of ROE.

16 **Q. ARE YOU OFFERING REBUTTAL TESTIMONY ON THE ISSUE OF ROE?**

17 A. Only that the Company continues to request a return on equity of 10.5% as supported by
18 Company witness Mr. McKenzie who will be submitting Rebuttal testimony on the issue of
19 ROE.

20 **Q. WHAT OVERALL RATE OF RETURN SHOULD THE COMMISSION ADOPT IN**
21 **THIS PROCEEDING?**

22 A. As explained in this testimony, and supported by Black Hills witnesses McKenzie, Daniel,
23 and Eyre, the Commission should adopt the cost of capital proposed by Black Hills. That

1 would include Black Hills' capital structure of 50.44% common equity and 49.56% long-
2 term debt, a weighted average cost of debt of 4.71%, and a return on equity of 10.5%.
3 Accordingly, the Commission should reject the overall recommendations of Staff and CURB
4 and approve the 7.63% ROR proposed by Black Hills.

5 **IV. PENSION AND RETIREE HEALTHCARE EXPENSES**
6 **AND ASSOCIATED TRACKERS**

7 **Q. PLEASE SUMMARIZE THE POSITIONS OF STAFF AND CURB REGARDING**
8 **THE COMPANY'S PENSION AND RETIREE HEALTHCARE EXPENSES AND**
9 **THE TRACKERS RELATED TO THOSE EXPENSES?**

10 A. Staff witness Baldry and CURB witness Benham both recommend that the Company's
11 actual pension expense of \$262,612 and retiree healthcare expense of \$167,600 for the
12 twelve-month period ending February 28, 2025, be used to set new base rates in this
13 proceeding. Further, both Staff and CURB recommend using the pension and retiree
14 healthcare expense tracker balances as of February 28, 2025, to establish the amounts to be
15 amortized over a specific period of time. Staff recommends amortizing these balances over
16 three years whereas CURB recommends a five-year amortization period.

17 **Q. DO YOU AGREE WITH STAFF'S AND CURB'S RECOMMENDATION TO USE**
18 **THE TWELVE-MONTH PERIOD ENDING FEBRUARY 28, 2025, FOR THE**
19 **DETERMINATION OF PENSION AND RETIREE HEALTHCARE EXPENSES?**

20 A. Yes. Black Hills agrees with both Staff's and CURB's computations of the pension and
21 retiree healthcare expense amounts for the twelve-month period ending February 28, 2025,
22 of \$262,612 and \$167,600, respectively. In KSG Rebuttal Exhibit SKJ-1, Black Hills has
23 updated its revenue requirement schedules to reflect these February 28, 2025, twelve-month

1 period ending amounts for its pension and retiree healthcare expense adjustments. Further,
2 the Company agrees that these amounts, of \$262,612 in pension expense and \$167,600 in
3 retiree healthcare expense, should be used for purposes of setting base rates in the
4 Company's pension and retiree healthcare expense trackers.

5 **Q. DO YOU AGREE WITH STAFF'S AND CURB'S RECOMMENDATION TO USE**
6 **THE PENSION AND RETIREE HEALTHCARE EXPENSE TRACKER**
7 **BALANCES AS OF FEBRUARY 28, 2025, TO ESTABLISH THE AMOUNTS TO BE**
8 **AMORTIZED IN THIS PROCEEDING?**

9 A. Yes. To be consistent with the time period used to determine pension and retiree healthcare
10 expense in this proceeding, I support using the February 28, 2025, balances of \$2,153,845
11 and \$286,331, respectively, for the pension and retiree healthcare expense trackers.

12 **Q. DOES BLACK HILLS HAVE ANY COMMENTS REGARDING STAFF'S AND**
13 **CURB'S RECOMMENDATIONS ON THE AMORTIZATION PERIOD RELATED**
14 **TO THE REGULATORY LIABILITY BALANCES?**

15 A. Consistent with the proposal in the Company's application, Black Hills agrees with Staff's
16 recommendation to use a three-year amortization period rather than a five-year amortization
17 period as proposed by CURB. Company witness Ms. Johnson further supports the use of a
18 three-year amortization period in her Rebuttal testimony.

1 **Q. DOES BLACK HILLS HAVE ANY ADDITIONAL COMMENTS REGARDING**
2 **STAFF’S AND CURB’S CALCULATIONS RELATED TO THE PENSION AND**
3 **RETIREE HEALTHCARE EXPENSE TRACKER REGULATORY LIABILITY**
4 **BALANCES?**

5 **A.** As previously noted, Black Hills agrees with Staff and CURB’s recommendation to use the
6 actual February 28, 2025, tracker balances to establish the amounts to be amortized in this
7 proceeding. However, it appears the February 28, 2025, pension regulatory liability balance
8 and retiree healthcare regulatory balance included on Staff’s Exhibit WEB-4 and CURB’s
9 Exhibit ALB-19 are reversed. As of February 28, 2025, the pension regulatory liability
10 balance is \$2,153,845 and the retiree healthcare liability balance is \$286,331. Using a three-
11 year amortization period, the pension regulatory liability amortization is \$717,948 and the
12 retiree healthcare regulatory liability amortization is \$95,444. Please refer to the table below:

	Pension	Retiree Healthcare
Period Update Balance: 2/28/2025	-2,153,845	-286,331
Amortization Period	3 Years	3 Years
Annual Amortization	-717,948	-95,444

13 **V. CONCLUSION**

14 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

15 **A.** Yes.

AFFIDAVIT OF THOMAS D. STEVENS

State of South Dakota)
County of Pennington) ss

I, THOMAS D. STEVENS, being first duly sworn on oath, depose and state that I am the same Thomas D. Stevens identified in the foregoing Rebuttal Testimony; that I have caused the foregoing Rebuttal Testimony to be prepared and am familiar with the contents thereof; and that the foregoing Rebuttal Testimony is true and correct to the best of my knowledge, information, and belief as of the date of this Affidavit.



Thomas D. Stevens

Subscribed and sworn to before me,
A Notary Public, in and for said County
and State, this 27 day of May, 2025.

Antoinette M. Brumbaugh
Notary Public

My Commission expires: 2/25/31



KSG CONFIDENTIAL REBUTTAL EXHIBIT TDS-1

- STATEMENT OF CASH FLOW
ANALYSIS**
- The Confidential Exhibit is subject
to the protective order issued in the
proceeding**

Black Hills/Kansas Gas Utility Company, LLC d/b/a Black Hills Energy (“Applicant”) has designated KSG Confidential Rebuttal Exhibit TDS-1 – Statement of Cash Flow Analysis as confidential pursuant to K.S.A. 66-1220a and K.A.R. 82-1-221a in that the Statement of Cash Flow Analysis contains confidential information concerning financial and business information that has not been disclosed to the public and disclosure to the public of such information would result in harm to the public interest, generally and which is not otherwise available from public sources.