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	**)))))**	**Docket No. 25-BHCG-298-RTS**

TESTIMONY IN SUPPORT OF

UNANIMOUS SETTLEMENT AGREEMENT

PREPARED BY

CHAD UNREIN

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

June 13, 2025

Q. Would you please state your name and business address?

A. My name is Chad Unrein. My business address is 1500 Southwest Arrowhead Road, Topeka, Kansas, 66604.

Q. Are you the same Chad Unrein that filed direct testimony in this Docket on May 9, 2025?

A. Yes.

Q. Please explain the purpose of your testimony.

A. I am testifying on behalf of the Staff of the Kansas Corporation Commission (Commission) in support of the settlement of the issues outlined in the Unanimous Settlement Agreement (Agreement) between Staff; Black Hills/Kansas Gas Utility Company, LLC (Black Hills or Company); the Citizens' Utility Ratepayer Board (CURB); Freedom Pipeline, LLC (Freedom); Kansas Municipal Gas Agency (KMGA); Seaboard Energy Kansas, LLC (Seaboard); Symmetry Energy Solutions, LLC (Symmetry); and WoodRiver Energy, LLC (WoodRiver), (collectively, the "Parties").[1]

My testimony will explain why the Commission should approve the Agreement as a reasonable resolution of the issues in this Docket. As detailed in the following analysis, the Agreement is in the public interest and will produce just and reasonable rates. My testimony provides the following:

- an informational review of the Docket;
- an overview and discussion of the Settlement Agreement;
- a discussion of the standard of review used to guide the Commission in its consideration of whether to accept the Agreement;[2] and
- a discussion of the evidence in the record that supports the Agreement.

[1] *Joint Motion to Approve Unanimous Settlement Agreement*, Docket No. 25-BHCG-298-RTS (June 13, 2025).
[2] *Order Approving Contested Settlement Agreement*, Docket No. 08-ATMG-280-RTS, pp. 4-6 (May 12, 2008).

Background Information

Q. Please provide a brief background of the case.

A. On February 3, 2025, Black Hills filed an Application seeking Commission approval to make changes in its rates and charges for natural gas service. Black Hills' Application indicated a gross revenue deficiency of $21.6 million, based upon normalized operating results for the 12-months ending September 30, 2024, adjusted for known and measurable changes. The net rate impact of this request for customers results in a $17.2 million increase after rebasing the amounts currently collected through the GSRS.[3]

According to Black Hills testimony, there are several drivers behind Black Hills filing this rate case, including:[4]

- operating expense increases since its 2021 rate proceeding;
- cost of debt increases due to inflation, rising bond yields, and refinancing activities since its 2021 rate proceeding;
- capital investments of $118 million spent on capital investments since the 2021 rate proceeding;
- its requested continuation of the Gas System Reliability Surcharge (GSRS); and
- its requested abbreviated rate case, deferred accounting tracker for insurance costs and other supported revisions to its tariffs.

Black Hills' Application included several modifications of its transportation tariff adjustments, which was supported by Samuel B. Tobin.[5] Mr. Tobin addressed the Company's request to impose the Daily Imbalance Charge[6] to all transport customers, in effect, eliminating the current application of the Daily Imbalance Charge to transportation

---

[3] The $17,207,752 net revenue increase (includes $1,457,265 of Ad Valorem tax expense) is the result of offsetting the $21,585,167 requested increase by $4,377,415 already being recovered from ratepayers through the GSRS.
[4] *See* Direct Testimony of Rob Daniel, pp. 9-14.
[5] *See* Direct Testimony of Samuel Tobin, pp. 2-3.
[6] *See* Index No. 37 Tariff Sheet Nos. 1-3.

customers served downstream of Northern Natural Gas (Northern), Colorado Interstate Gas Company, Inc. (CIG), and Panhandle Eastern Pipe Line Company (PEPL) and instead applying the Daily Imbalance Charge uniformly across Black Hills' entire service area within the State of Kansas. Additionally, Mr. Tobin proposed an increase to the current non-telemetered daily balancing service charge of $0.009 per therm to $0.015 per therm due to the daily price volatility Black Hills has experienced in the last several years. The non-telemetered daily balancing service charge is meant to protect the system sales customers against gas costs associated with daily system management with a credit to the Purchased Gas Adjustment ("PGA").

Q. Please discuss Staff's rate case position in direct testimony and supporting exhibits.

A. On May 9, 2025, Staff filed its direct testimony, including schedules and exhibits supporting a recommended net revenue requirement increase of $9,184,235, which does not include the effect of rolling the GSRS revenue into base rates, which totals $4,377,415.[7] After accounting for the rebased GSRS revenue, Staff's filed revenue requirement totaled $13,561,650 and would result in a net rate increase of 15.22% to Kansas ratepayers. For comparison purposes, Staff provided a table outlining the difference in Black Hills' rate request and Staff's filed positions in the rate case.

Net Rate Impact		
Description	**Black Hills**	**Staff**
Base Revenue Requirement Increase	$21,585,167	$13,561,650
Percentage Increase in Base Rates	35.77%	22.47%
GSRS Rebased	$4,377,415	$4,377,415
Net Revenue Increase to Customers	$17,207,752	$9,184,235
Net Percentage Increase	28.51%	15.22%

[7] Staff's filed rate case position results in a Net Revenue Increase to Customers of $9,184,235 and includes $1,457,265 of Ad Valorem tax expenses, which means that the Ad Valorem Tax Surcharge will ultimately be lower by $1.5 million as a result of this rate case.

Staff witness Adam Gatewood addressed the cost of capital included in Staff's revenue requirement calculation.[8] Mr. Gatewood recommended an ROR of 6.94%, which included an ROE of 9.7% and a cost of debt of 4.61%. Mr. Gatewood updated Black Hills' actual capital structure calculation through February 28, 2025, Staff update period, which resulted in 45.76% equity ratio and a 54.24% debt ratio.

As presented in my direct testimony, Staff recommended that the Commission allow Black Hills to file a limited abbreviated rate case following the final Order in this Docket.[9] The Abbreviated rate case filing would address the "true-up" of CWIP included in this Docket through September 30, 2025, and include changes in Black Hills plant in service, accumulated depreciation, ADIT and depreciation expenses through December 31, 2025. My testimony supported Black Hills' requested extension of the GSRS Rider and Ad Valorem Tax Surcharge Rider, as well as a modified proposal to implement a new tracker for insurance expense, and support for the tariff rate for non-telemetered daily balancing service charge of $0.009 per therm to $0.015 per therm.

Regarding rate design, Staff witness Lana Ellis, Ph.D., recommended a new residential service charge of $20.77, which was calculated by adding the GSRS monthly allocated residential customer charge in the amount of $2.27 to the existing residential fixed service charge of $18.50.[10]

Staff witness Paul Owings provided Staff's position on Black Hills' tariff-related amendments to six provisions of its transportation tariffs included in Black Hills filing.[11] Mr. Owings supported Black Hills' proposal to impose the daily imbalance charge to all

---

[8] *See* Direct Testimony of Adam Gatewood, p. 4.
[9] *See* Direct Testimony of Chad Unrein, pp. 6 – 7.
[10] *See* Direct Testimony of Lana Ellis, Ph.D., p. 11.
[11] *See* Direct Testimony of Paul Owings, pp. 2 – 3.

transport customers noting that the rates are similar to those imposed by one of its upstream suppliers. Mr. Owings supported the tariff changes requested by Black Hills.

Q. Please discuss CURB's filed rate case position presented in direct testimony and supporting exhibits.

A. On May 9, 2025, CURB filed its direct testimony, including schedules and exhibits supporting a recommended base revenue requirement increase of $18,067,859, which includes the rebasing of the GSRS revenue of $4,377,415. After accounting for the rebased GSRS revenue, CURB's net revenue requirement recommendation totaled $13,690,444[12] and would result in a net rate increase of 22.69% to Kansas ratepayers. CURB filed position contained an overall cost of capital of 7.11%, which is composed of a 9.5% ROE, a 4.71% Cost of Debt, and a hypothetical capital structure consisting of 50% common equity and 50% long-term debt.[13]

CURB recommended the Commission approve Black Hills' request for an abbreviated rate case limited to: 1) plant-in service additions and updates to items associated with plant-in service through December 31, 2025, and 2) re-examination of the proposed insurance expense tracker.

Q. Please discuss the Cross-Answering Testimony filed by the interveners in this docket.

A. On May 23, 2025, Cross-Answering Testimony was filed by two of the interveners in this case, Freedom and Symmetry, with concerns regarding Staff's support of imposing the Daily Imbalance Charge to all transport customers, believing that customers like Freedom and Symmetry would be unfairly penalized with increasing costs and no way to control those costs.

[12] *See* Direct Testimony of Audrey Benham, p. 3.
[13] *See id*, p. 4.

Q. Please provide background on Black Hills' rebuttal testimony and discuss how Staff used the testimony and supporting exhibits.

A. On May 30, 2025, various Black Hills witnesses filed rebuttal testimony accepting or opposing Staff and CURB rate base and income statement adjustments.[14] Staff utilized Black Hills' rebuttal testimony to identify any errors or omission of any data in calculating its adjustments and reviews the arguments advanced from each witness against Staff's filed positions. Staff determines whether any revisions need to be made to Staff adjustments in evaluating its litigation risks and revenue requirement position presented in its direct testimony. Staff evaluates each adjustment on a case-by-case basis, using Black Hills' rebuttal testimony to prepare for Settlement discussions and potentially full litigation of the rate case.

Q. Please provide a brief background on the Settlement conference.

A. In accordance with the procedural schedule in this Docket, the Parties met to discuss the possible settlement of issues via an in-person settlement conference held at the Commission office on June 5, 2025. The Settlement Agreement was finalized between the parties and filed with the Commission on June 13, 2025, which resolved all of the outstanding issues between the parties. Under the Commission regulation (K.A.R. 82-20 1—230a), the Settlement Agreement is considered to be a Unanimous Settlement as all of the parties signed the Agreement.

[14] *See* Rebuttal Testimony of Samantha Johnson, pp. 3-6.

Terms of the Settlement Agreement

Q. Please provide an overview of the Agreement.

A. The Agreement establishes agreed upon overall revenue increase of $15.2 million in base rates, which reflects the rebasing of $4.4 million in GSRS revenues. Considering that the GSRS goes to $0 upon the implementation of new base rates, , the Agreement reflects a net revenue requirement increase of $10.8 million.[15] Unless directly stipulated in the provisions, the Agreement represents a "black box agreement" in which each of the Parties agrees on the end result of the Agreement, but may not necessarily agree on the adjustments made by each Party in order to arrive at the Agreement.

Q. Please discuss in detail the provisions of the Agreement.

A. In the testimony below, Staff provides the provisions of the Agreement[16] contained in "Part II: Settlement Provisions" as follow:

A. Carrying Charges to be Applied for Purposes of Calculating Black Hills' GSRS and Abbreviated Rate Case Revenue Deficiency

- For purposes of calculating Black Hills' GSRS, the carrying charges to be applied to recoverable investments in such filings shall be calculated using a carrying charge of 8.37% gross of tax, which is based on state and federal tax rates in effect as of the date of Settlement. The Parties agree this carrying charge is solely for the purpose of subsequent GSRS filings and the abbreviated rate case agreed to in this Settlement and is not precedential for any other purpose. Should tax rates change between now and the next Black Hills general rate case decision, the carrying charge set forth in this paragraph shall be adjusted to reflect the change in the tax rates.[17]

---

[15] *See* Unanimous Settlement Agreement, Part II, ¶ 1(a), p. 4.
[16] *See id, p. 9,* for the Miscellaneous Provisions that discusses the Commission Rights, Parties Rights, Waiver of Cross-Examination and Post-hearing Briefs, Negotiated Settlement language, Interdependent Provisions, and Submission of Documents to the Commission or Staff.
[17] *See id*, ¶ 2(a), pp. 4-5.

B. Capital Structure/Cost of Debt/Cost of Equity

- The Parties agree that nothing in this Settlement constitutes an agreement by the Parties to the capital structure, cost of debt and cost of equity presented in this case and this Settlement does not prevent the Parties from challenging such proposals in the future.[18]

C. Abbreviated Rate Case

- The Parties agree on the abbreviated rate case procedure and limited issues to be addressed in the abbreviated rate case as proposed by Staff. For purposes of the abbreviated rate case the Parties agree that Black Hills's total adjusted rate base as of February 28, 2025, shall be $294,824,431.[19]

D. Deferred Account Insurance Tracker

- The Parties agree on the deferred accounting insurance tracker as proposed by Black Hills.[20]
- The Parties agree to Staff's recommendation to sunset the deferred accounting insurance tracker as part of Black Hills's next general rate case and require Black Hills to support the cost recovery of the deferred balance in its next general rate case filing.[21]
- The parties agree that the insurance amount embedded in base rates shall be $1,128,696.[22]

E. Accounting Matters

- Ad Valorem Surcharge. For purposes of filing Black Hills's ad valorem surcharge rider in December 2025 (and subsequent years until rebased in Black Hills's next base rate case), the Parties agree that the ad valorem tax expenses embedded in base rates shall be $7,815,966.[23]
- Amortization Periods and/or expenses are established as follows:

---

[18] *See id*, ¶ 3(a), p. 5.
[19] *See id*, ¶ 4(a).
[20] *See id*, ¶ 5(a).
[21] *See id*, ¶ 5(b).
[22] *See id*, ¶ 5(c).
[23] *See id*, ¶ 6(a), p. 6.

(a) Black Hills' actual rate case expense – over a five-year amortization period;[24]

(b) Black Hills' Pension amortization of $717,948 and OPEB amortization of $95,444 – over a three-year amortization period;[25]

(c) With respect to the Pension and OPEB amounts contained in (b), Black Hills shall have the right to recover any unamortized amount relating to Pension and OPEB deferrals.[26]

(d) For the purposes of calculating Black Hills' Pension tracker going forward, the parties agree that base rates agreed to in this Agreement include the following expenses:

(1) Black Hills' Pension Expense of $262,612;[27]

(2) Black Hills' OPEB Expense of $167,600.[28]

F. Tax Adjustment Rider ("TA Rider")

- The Parties agree that Black Hills shall follow the process as proposed in its testimony to refund $2,950,909. After Black Hills files its 2024 income tax return and the amounts are finalized, a true-up adjustment will be made in the TA Rider. The Company proposes this true-up adjustment occur prior to the first month of refunds being given to customers. If time does not allow for a true up prior to November 1, 2025, the Company proposes to true up the final EDIT amount at the end of the refund period, after April 30, 2026.[29]

G. Class Cost of Service and Rate Design

- The Parties agree that nothing in this Settlement constitutes an agreement by the Parties to the Class Cost of Service Studies presented in this case and this Settlement does not prevent the Parties from challenging such studies in the future.[30]

[24] *See id*, ¶ 6(b)(i).
[25] *See id,* ¶ 6(b)(ii).
[26] *See id,* ¶ 6(b)(iii).
[27] *See id*, ¶ 6(b)(iv)(1).
[28] *See id*, ¶ 6(b)(iv)(2).
[29] *See id*, ¶ 7(a), pp. 6-7.
[30] *See id*, ¶ 8(a), p. 7.

- The residential class customer charge shall be $21.00 per month. The small commercial customer charge shall be $32.00 per month.[31]
- The Parties agree the rate increase shall be allocated among the respective classes of customers according to the amounts indicated for each class as shown in Attachment A to this Settlement.[32]
- The Parties agree to the rates set forth in Attachment A.[33]

H. Time Period used to Determine Normal Weather and Weather Normalization Adjustment (WNA)

- For purposes of this Settlement only, the Parties agree to use a 10-year period to determine normal weather. The Parties shall not be prejudiced, bound by or in any way affected by this portion of this Agreement in any future general rate case.[34]
- For the purpose of calculating the WNA factor, the Parties agree to use the Heating Sensitivity Coefficients for the WNA Rider as set forth in Attachment B to this Settlement.[35]

I. Transportation Tariff Revisions and KMGA's Request Relating to CCOSS in Black Hills' Next General Rate Case

- The Parties agree to defer the proposed daily balancing transportation tariff revisions, including proposed revisions relating to (1) the addition of daily balance charges; (2) receipt point capacity allocation assignments; and (3) expansion of Operational Flow Order ("OFO") to customer specific OFOs; to a separate docket to be initiated by Black Hills after a final order is issued in the abbreviated rate case discussed in this Settlement.[36]
- The Parties agree with respect to the proposed annual aggregation enrollment revision to allow for a two-year transition period. The beginning date for enrollment will be July 1st.[37]

---

[31] *See id*, ¶ 8(b).
[32] *See id*, ¶ 8(c).
[33] *See id*, ¶ 8(d).
[34] *See id*, ¶ 9(a).
[35] *See id*, ¶ 9(b).
[36] *See id*, ¶ 10(a), p. 8.
[37] *See id*, ¶ 10(b).

- The Parties agree to the non-telemetered daily balancing service charge being set at $0.012 per therm.[38]

- The Parties agree to the Gas Quality Specifications revisions and the LVI telemetry requirements as proposed by Black Hills.[39]

- Black Hills agrees in its next general rate case to include in its Class Cost of Service Study ("CCOSS"), as an alternative for information purposes, a CCOSS that separates out the LVS customer class into Firm, Transportation and Interruptible customers. Black Hills is not obligated in any way to advocate for the alternative CCOSS provided.[40]

J. Other Tariff Revisions

- The Parties agree to the tariff revisions proposed by Nicholas W. Smith in his direct and rebuttal testimony.[41]

K. Effective Date of Increase in Rates

- The Parties agree to request that the new rates approved by the Commission in this rate case become effective on or before August 1, 2025.[42]

L. Miscellaneous Provisions

Several Miscellaneous Provisions that are not materially different than any rate case Settlement Agreement filed before the Commission[43]

[38] *See id*, ¶ 10(c).
[39] *See id*, ¶ 10(d).
[40] *See id*, ¶ 10(e).
[41] *See id*, ¶ 11(a).
[42] *See id*, ¶ 12(a).
[43] See id, ¶ 13.

Commission Standards for Approving Settlement Agreements

Q. Has the Commission previously used factors or standards to review a settlement agreement?

A. Yes. The Commission's Order in Docket No. 08-ATMG-280-RTS (08-280 Docket) discusses five factors, or standards, and multiple agreements have been reviewed by the Commission using the five factors since that Order.[44] However, subsequent Commission Orders noted that for unanimous settlement agreements, parties need not apply the historical five-factor test set forth in the 08-280 Docket.[45] Therefore, the evaluation under all five factors is unnecessary for this Settlement Agreement.

Q. What standards does the Commission generally examine when considering a unanimous settlement agreement?

A. The Commission may accept a unanimous settlement agreement so long as approval of the settlement is: (1) supported by substantial competent evidence in the record as a whole; (2) results in just and reasonable rates; and (3) is in the public interest.[46,47] Each of these factors is discussed individually below.

Support for the Settlement Agreement

Q. Please address whether the Agreement is supported by substantial competent evidence in the record.

A. The Agreement is supported by substantial competent evidence in the record. The Agreement is supported by Black Hills' Application, direct and rebuttal testimony, as well

[44] *Order Approving Contested Settlement Agreement*, 08-280 Docket, p. 5 (May 5, 2008).
[45] *Order on KCP&L's Application for Rate Change*, Docket No. 15-KCPE-116-RTS, ¶ 16, p. 6 (Sept. 10, 2015).
[46] *Id*, ¶ 15.
[47] *Citizens' Util. Ratepayer Bd. v. State Corp. Comm'n of State of Kansas*, 28 Kan. App. 2d 313, 316 16 P.3d 319, 323 (2000).

as the direct testimonies of several witnesses offering diverse and often conflicting perspectives about the issues presented in this case. Staff analyzed the Application and formed its own conclusions, which are set forth in its direct testimony. In addition, CURB, Freedom, KMGA, Seaboard, Symmetry, and WoodRiver reviewed the filing and stated their respective positions in direct testimony. These filed positions represent the body of evidence the Commission would rely on to make a determination of the issues presented in this case, if the case were to be fully litigated. The Parties also relied on this evidence in negotiations and eventually arrived at an agreed upon resolution of all the issues in this case. It is Staff's position that the terms of this Agreement are commensurate with what could be expected if the case were to be fully litigated.

Q. How was the net revenue requirement increase of $10.8 million, which accounts for the rebasing of $4.4 million in GSRS to base rates, arrived at by the Parties?

A. There is no specific calculation identified in the Agreement that supports the amount; therefore, each party may have a different understanding of the agreed to concessions to produce this result. The revenue requirement agreed to by the Parties necessarily requires the acceptance of most of Staff's adjustment changes to the revenue requirement. From Staff's perspective, there are several changes that explain the difference between its filed net revenue requirement increase of $9.2 million, compared to the $10.8 million base rate revenue requirement change contained in the Agreement.

In rebuttal testimony, Black Hills provided a revised revenue requirement analysis that included proposed changes to Staff's filed adjustments. Each of the adjustments addressed in rebuttal testimony were reviewed and revised by Staff with the impact to the revenue requirement being calculated by flowing the changes through Staff's schedules.[48] Staff prepared the following table that details the revenue requirement impacts of the changes to calculate a revised litigation position. In the table, Staff provided the revised calculations contained in Staff schedules, the revenue requirement impact of each adjustment, and the Staff and Black Hills' rebuttal witnesses that covered the adjustment.

Black Hills Witness	Staff Witness	Description	Staff Filed Adjustment	Black Hills' Rebuttal Adjustment	Staff's Revised Adjustment	Change in Revenue Requirement
		Staff's Filed Revenue Requirement				**$ 13,561,650**
		Rate Base				
Johnson	Figgs	EDIT	2,197,291	3,422,917	3,868,041	78,580
		Total Revenue Requirement Impact for Rate Base Adjustments				**$ 78,580**
		Income Statement				
Johnson	Buller	Depreciation Expense	(382,830)	(382,929)	(382,929)	(99)
Johnson	Buller	Fleet Depreciation Expense	(14,944)	(95,084)	(95,084)	(80,526)
Eyre	Buller	DIIP	(250,276)	250,276	(221,040)	29,377
Johnson	Baldry	Advertising	(1,487)	(1,395)	(1,395)	92
Johnson	Baldry	Employee Awards	(63,864)	(31,932)	(31,932)	32,086
Johnson	Figgs	Commission Fees	(15,391)	(2,440)	(4,743)	10,698
Fritel	Glass	Weather Norm and Irrigation	2,243,019	1,120,305	1,681,662	561,357
Johnson	Figgs	Rate Case Expense	(303,949)	(121,497)	(202,556)	101,880
		Total Revenue Requirement Impact for Income Statement Adjustments				**$ 654,865**
		Total Revenue Requirement with Changes				**$ 14,295,095**
		Change in Capital Structure				**737,215**
		Total Revenue Requirement with Changes				**$ 15,032,310**

Notes:
Staff's calculated Revenue Requirement impact includes the tax impact of the adjustment and adjustment to bad debt expense, forfeited discounts, and Commission fees, which are curcular references in the Revenue Requirement Schedules

The total revenue requirement impact for changes after rebuttal to Staff's rate base adjustments to EDIT and ADIT was $78,580, which includes: (1) computational changes to bad debt, Commission fees, and prepaid expenses based on adjusted revenue; (2) changes to net operating losses based on the computation of "with" and "without" methodology; (3)

[48] Staff would note that the revenue requirement impact was calculated using Staff's cost of capital and includes the impact on income taxes and changes to Staff's adjustments to bad debt expense, forfeited discounts, and Commission fees through a circular reference in the Schedules.

changes related to protected and non-protected ADIT, including the impact to ADIT associated with the adjustment to depreciation expense.

The total revenue requirement impact for changes after rebuttal to Staff's income statement adjustments was $654,865. The income statement adjustments include changes to Staff's adjustments including: (1) depreciation expense resulting in a net revenue requirement impact of ($99); (2) fleet depreciation expense resulting in a net revenue requirement impact of ($80,526); (3) Data Improvement Integrity Program (DIIP) expense resulting in a net revenue requirement impact of $29,377; (4) advertising resulting in a net revenue requirement impact of $92; (5) employee awards resulting in a net revenue requirement impact of $32,086; (6) Commission fees resulting in a net revenue requirement impact of $10,698; (7) weather normalization resulting in a net revenue requirement impact of $561,357; and (8) rate case expense resulting in a net revenue requirement impact of $101,880.

When including the revenue requirement impact of the revised capital structure in the amount of $737,215, the total revenue requirement impact is $1,470,660. This results in Staff's revised revenue requirement total of $15,032,310.

Q. Did Staff prepare any additional analysis regarding other adjustments for possible litigation risk?

A. Although all of Staff's specific concessions during the negotiations are not specifically delineated in the Agreement, Staff recognized additional litigation risk existed relative to certain positions taken by Black Hills for some of Staff's proposed adjustments in the case.

First, rate case expense is routinely updated for the actual costs incurred by the Company, Staff, and CURB to litigate a rate case. As such, rate case expense is likely to increase if the Parties pursued litigation of the rate case.

Second, Staff's revenue requirement calculations contained in the settlement analysis are supported by Staff's overall weighted average cost of capital, capital structure, ROE and debt costs. Due to the potential range of probable outcomes for any of these variables, it is difficult to provide a concrete rate impact, if a negative litigation outcome were to occur.

Following the review of cross-answering and rebuttal positions, Staff believes the revenue requirement included in the Agreement is well within the zone of reasonableness and accounts for litigation risk and parties' testimonies included in the record.

The Agreement of $15.2 million in the annual overall increase in Black Hills base revenues was accepted unanimously by all the Parties, as a reasonable resolution to the outstanding issues. As previously stated, the Agreement results in a net increase of $10.8 million with the rebasing the $4.4 of GSRS revenues.

Q. Please discuss any adjustments that were made to rate allocations or rate design in the proposed Agreement.

A. Staff's rate design proposal served as the primary basis for the Revenue Allocation and Proof of Revenue contained in Appendix B of the settlement agreement. In the Agreement, the Parties agreed to make a few changes to Staff's filed rate design through an adjustment to the revenue allocation that resulted in residential service moving from a 64.8% current base revenue allocation and 67.8% of GSRS revenue allocations to a 70.96% allocation.[49,50] With the change in the rate design for the residential revenue allocation, the Parties agreed

[49] *See* Attachment B.
[50] *See* Direct Testimony of Lana Ellis, PhD., p. 10.

to use a pro-rata allocation of the revenue differences and proportionally allocate the revenues through to the other customer classes.

The Parties agreed to Staff's fixed monthly service charge of $21.00 for residential customers. Staff proposed the $21.00 monthly customer charge for residential customers, incorporating the existing monthly customer charge of $18.50 and the fixed GSRS charge of $2.27. The residential volumetric delivery charge would increase from $2.0251 per Mcf to $3.0960 per Mcf. For comparison purposes, Black Hills proposed residential customers would have resulted in a $31.50 monthly customer charge and a volumetric delivery charge of $2.0947 per Mcf.[51]

Staff detailed the changes in the residential customer and delivery charges due to the change in revenue allocation; however, the remaining rate class impacts are detailed in the Rates and Proof of Revenue contained in Attachment B. If the Commission has any direct questions related to the class cost of service, rate design and revenue allocation contained in the Rates/Proof of Revenue in Attachment B to the Agreement, Staff can have its class cost of service and rate design witnesses available to answer any questions at the Settlement Hearing.

Q. What is the estimated impact of the Agreement on the average residential customer?

A. Net of rebasing of the GSRS, the average residential customer will experience an increase of approximately $5.54 per month or $66.48 per year, based on average annual residential usage of 50 therms. Based on the average residential customer usage and gas cost, residential customers will experience a net increase of approximately 8.8%.

[51] *See* Direct Testimony of Ethan Fritel, p. 28.

Q. Please discuss how the GSRS carrying charge of 8.37% is calculated.

A. Black Hills' GSRS carrying charge represents a Pre-Tax ROR of 8.37% and is a negotiated amount in the Settlement Agreement. Each party to the Agreement will likely have a different perspective on what capital structure and ROE is represented by the pre-tax ROR. To illustrate how different capital structures and ROE scenarios can result in different pre-tax RORs, Staff offers the following examples. Each example below results in the same pre-tax ROR, but with significantly different capital structure and ROE assumptions.

Black Hills' Filed Capital Structure				
Description	Capitalization Ratio	Related Costs	Weighted Cost of Capital	Pre-Tax ROR (Weighted Cost)
Long-Term Debt	49.56%	4.71%	2.33%	2.33%
Common Equity	50.44%	9.45%	4.77%	6.04%
	100.00%		7.10%	8.37%

Staff's Filed Capital Structure				
Description	Capitalization Ratio	Related Costs	Weighted Cost of Capital	Pre-Tax ROR (Weighted Cost)
Long-Term Debt	54.24%	4.71%	2.55%	2.55%
Common Equity	45.76%	10.05%	4.60%	5.82%
	100.00%		7.15%	8.37%

CURB's Filed Capital Structure				
Description	Capitalization Ratio	Related Costs	Weighted Cost of Capital	Pre-Tax ROR (Weighted Cost)
Long-Term Debt	50.00%	4.71%	2.36%	2.36%
Common Equity	50.00%	9.50%	4.75%	6.01%
	100.00%		7.11%	8.37%

One Possible Scenario of the Settlement Capital Structure				
Description	Capitalization Ratio	Related Costs	Weighted Cost of Capital	Pre-Tax ROR (Weighted Cost)
Long-Term Debt	52.50%	4.71%	2.47%	2.47%
Common Equity	47.50%	9.80%	4.66%	5.89%
	100.00%		7.13%	8.37%

As detailed in the tables, depending on your assumed capital structure and cost of debt, the agreed-upon pre-tax ROR contains an ROE between 9.45% and 10.05%. On the other hand, for a given ROE, you can back into an assumed capital structure. The Pre-tax ROR of 8.37% will apply to the carrying charge on qualifying GSRS projects.[52]

Q. Please briefly discuss how the Agreement addresses Black Hills' recommended tariff revisions?

A. Black Hills, Staff, CURB, and its intervening Transportation customers were able to come to a complete resolution of Black Hills proposed tariff revisions. The Agreement represents a tariff resolution, which resulted from the direct negotiation and various interests of the supporting parties included in the record.[53]

The Agreement includes the following tariff resolutions.

1. Black Hills agreed to defer daily balancing tariff revisions and initiate a separate docket following the Commission's submission of its final Order in Black Hills' abbreviated rate filing, to address the following: i.) the addition of daily balancing charges, ii.) receipt point capacity allocation assignments, and iii.) expansion of OFO to customer specific OFOs.[54]

---

[52] For comparison purposes, Staff filed pre-tax ROR was 8.12%.
[53] *See Agreement: Exhibit A, Section II, Item 10.*
[54] *See id*, ¶ 10(a)

2. The Parties agree to the proposed annual aggregation enrollment revision to allow for a two-year transition period. Following the two-year transition period, the initial enrollment under the new provisions will be July 1, 2027.[55]
3. The Parties agree to the non-telemetered daily balancing service charges being set at $0.012 per therm.[56]
4. The Parties agree to Gas Quality Specification revisions and the LVI telemetry requirements as Proposed by Black Hills.[57]
5. Black Hills agrees in its next general rate case to include a Class Cost of Service Study, as an alternative for informational purposes, a CCOSS that separates out the LVS customer class into Firm, Transportation, and Interruptible customers.[58]

Q. Does the Agreement result in just and reasonable rates?

A. Yes. Staff contends this Agreement results in rates that fall within the "zone of reasonableness" described by the Kansas courts in which the result is balanced between the interests of investors versus ratepayers, present versus future ratepayers, and is in the public interest generally. This opinion is supported by the fact that revenue requirement agreed to in the settlement is closer to Staff's filed position than Black Hills requested increase of $17.2 million.

Staff's direct testimony was filed with the intention of balancing all the interests represented in this case, and the agreed upon total revenue increase is a substantial

[55] *See id*, ¶ 10(b)
[56] *See id*, ¶ 10(c).
[57] *See id*, ¶ 10(d).
[58] *See id*, ¶ 10(e). Pursuant to this item of the Agreement, Black Hills is not obligated in any way to advocate for the alternative CCOSS provided.

adjustment in rates from Black Hills' filed position. This agreed upon revenue requirement increase strikes the proper balance between the Company's desire to have a reasonable assurance that it will earn sufficient revenues and cash flows to meet its financial obligations and the need to keep rates as low as possible for the customers, while providing reliable natural gas distribution service. In short, the level of cost recovery afforded under this settlement reflects Black Hills' cost of providing reasonably sufficient and efficient service.[59]

The presence of professional expert witnesses and attorneys helps ensure that any unreasonable position(s) taken by any party are eliminated by opposing parties through the settlement process. More specifically, while an unreasonable position(s) may or may not be discussed explicitly in settlement, each party is generally unwilling to make concessions to unreasonable position(s) and will exclude such unreasonable position(s) from their respective settlement positions. Simply put, a settlement that is able to satisfy each of these very diverse and competing interests is not easy to accomplish. The fact that the Parties in this case, with diverse and often competing interests, have found common ground for resolving their respective issues strongly supports Staff's contention that the Agreement in this case will result in just and reasonable rates that are in the public interest.

Q. Are you aware of the balancing test set forth by the Kansas Supreme Court for determining whether rates are "just and reasonable"?

A. Yes, the Kansas Supreme Court has stated:

The leading cases in this area clearly indicate that the goal should be a rate fixed within the "zone of reasonableness" after the application of a balancing test in which the

[59] *See* K.S.A. 66-101b.

interests of all concerned parties are considered. In rate-making cases, the parties whose interests must be considered and balanced are these:

(1) the utility's investors vs. the ratepayers;

(2) the present ratepayers vs. the future ratepayers; and

(3) the public interest.[60]

Q. What evidence in this case should be considered when performing the balancing test set forth by the Kansas Supreme Court?

A. Staff's contention is the Agreement before the Commission easily passes the balancing test set forth by the Kansas Supreme Court. The following supports this assertion:

(1) the agreed-upon revenue requirement balances the interests of the utility's investors and the ratepayers because it is a substantial reduction from Black Hills' filed position of $17.2 million, without jeopardizing the ability of Black Hills to provide efficient and sufficient natural gas distribution service;

(2) Staff has strived to eliminate any inequity in our filed position and the settlement and, therefore, the Agreement provides a fair balance between present and future ratepayers; and

(3) the fact that both of the two factors above have been met is itself an indication that the Agreement is in the public interest generally. I will discuss this in greater detail below.

Q. Does Staff believe the results of the Agreement are in the public interest?

A. Yes. There were multiple interests represented by the parties involved in the negotiations: Black Hills representing the interest of its management and shareholders; CURB

[60] *Kan. Gas and Electric Co. v. State Corp Comm'n*, 239 Kan. 483, 488 (1986).

representing the interests of residential and small commercial ratepayers; Freedom representing the interest of its transportation customers; KMGA representing the interests of its Large Volume Transportation Service (LVTS) and negotiated rate Large Volume Transport customers; Seaboard representing the interest of a retail ratepayer as a direct large volume transportation customer of Black Hills; Symmetry representing the interest of its large Commercial and Industrial transportation customers; and WoodRiver representing the interests of its transportation customers. Staff tries to balance the interests of these parties, while representing the interests of the public generally. The fact that these varied interests were able to collaborate and present a unanimous resolution of the issues in this case strongly indicates the public interest standard has been met.

Generally speaking, the public interest is served when ratepayers are protected from unnecessarily high prices, discriminatory prices and/or unreliable service. More specifically, it is Staff's opinion that the Agreement meets the public interest because:

- It reduces the amount of Black Hills' requested revenue increase closer to Staff's filed position;
- It provides Black Hills with sufficient revenues and cash flows to meet its financial obligations and provide reliable service;
- It allows Black Hills to continue to utilize the GSRS mechanism (as authorized in K.S.A. 66-2202 et seq.) to continue replacing its aging infrastructure in the state;
- In settlement negotiations, each of the parties represented their respective interests by putting time, thought, and professional analysis into deriving a settlement position it found reasonable;

- The stipulated revenue requirement increase was based on the record and is a reasonable compromise among the Parties based on each party's own analysis of a reasonable outcome; and
- If this Agreement is approved, the Parties would avoid the costly and time-consuming process of a fully litigated hearing. It is in the public interest to avoid these costs if possible, and this Agreement accomplishes this result.

Q. Should the Commission accept the Agreement as a reasonable resolution of the issues in this Docket?

A. Yes, the Agreement represents a reasonable resolution of the issues in this Docket, results in just and reasonable rates, is in the public interest, and is supported by substantial competent evidence in the record.

Q. Does this conclude your testimony?

A. Yes, thank you.

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

VERIFICATION

Chad Unrein, being duly sworn upon his oath deposes and states that he is Chief of Accounting and Financial Analysis for the Utilities Division of the Kansas Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Direct Testimony*, and attests that the statements contained therein are true and correct to the best of his knowledge, information and belief.

Chad Unrein
Chief of Accounting and Financial Analysis
State Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 12 day of June, 2025.

Notary Public

My Appointment Expires: 4/28/29

NOTARY PUBLIC - State of Kansas
ANN M. MURPHY
My Appt. Expires 4/28/29

CERTIFICATE OF SERVICE

25-BHCG-298-RTS

I, the undersigned, certify that a true and correct copy of the above and foregoing Testimony in Support of Setttlement Agreement was served via electronic service this 16th day of June, 2025, to the following:

JAMES G. FLAHERTY, ATTORNEY
ANDERSON & BYRD, L.L.P.
216 S HICKORY
PO BOX 17
OTTAWA, KS 66067-0017
jflaherty@andersonbyrd.com

JEFF AUSTIN
AUSTIN LAW P.A.
7111 W. 151st ST.
SUITE 315
OVERLAND PARK, KS 66223
jeff@austinlawpa.com

NICK SMITH, MANAGER - REGULATORY & FINANCE
BLACK HILLS/KANSAS GAS UTILITY COMPANY LLC
D/B/A Black Hills Energy
601 NORTH IOWA STREET
LAWRENCE, KS 66044
nick.smith@blackhillscorp.com

JEFFREY DANGEAU, ASSOCIATE GENERAL COUNSEL
BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC
D/B/A BLACK HILLS ENERGY
655 EAST MILLSAP DRIVE, STE. 104
PO BOX 13288
FAYETTEVILLE, AR 72703-1002
jeff.dangeau@blackhillscorp.com

ROB DANIEL, DIRECTOR OF REGULATORY
BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC
D/B/A BLACK HILLS ENERGY
2287 COLLEGE ROAD
COUNCIL BLUFFS, IA 51503
rob.daniel@blackhillscorp.com

DOUGLAS LAW, ASSOCIATE GENERAL COUNSEL
BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC
D/B/A BLACK HILLS ENERGY
2287 COLLEGE ROAD
COUNCIL BLUFFS, IA 51503
douglas.law@blackhillscorp.com

JOSEPH R. ASTRAB, CONSUMER COUNSEL
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
joseph.astrab@ks.gov

TODD E. LOVE, ATTORNEY
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
todd.love@ks.gov

SHONDA RABB
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
shonda.rabb@ks.gov

DELLA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
della.smith@ks.gov

CERTIFICATE OF SERVICE

25-BHCG-298-RTS

ALEX GOLDBERG, ATTORNEY
EVERSHEDS SUTHERLAND (US) LLP
1196 S MONROE STREET
DENVER, CO 80210
alexgoldberg@eversheds-sutherland.com

MOLLY E MORGAN, ATTORNEY
FOULSTON SIEFKIN LLP
1551 N. Waterfront Parkway
Suite 100
Wichita, KS 67206
mmorgan@foulston.com

JAMES P ZAKOURA, ATTORNEY
FOULSTON SIEFKIN LLP
7500 COLLEGE BOULEVARD, STE 1400
OVERLAND PARK, KS 66201-4041
jzakoura@foulston.com

DAVID N DITTEMORE
FREEDOM PIPELINE, LLC
609 REGENT PARK DRIVE
MT. JULIET, TN 37122-6391
d.dittemore28@gmail.com

MONTGOMERY ESCUE, CONSULTANT
FREEDOM PIPELINE, LLC
3054 KINGFISHER POINT
CHULUOTA, FL 32766
montgomery@escue.com

KIRK HEGER
FREEDOM PIPELINE, LLC
1901 UNIVERSITY DRIVE
LAWRENCE, KS 66044
kirkheger@gmail.com

AARON BAILEY, ASSISTANT GENERAL COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
aaron.bailey@ks.gov

PATRICK HURLEY, CHIEF LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD RD
TOPEKA, KS 66604
patrick.hurley@ks.gov

PAUL MAHLBERG, GENERAL MANAGER
KANSAS MUNICIPAL ENERGY AGENCY
6300 W 95TH ST
OVERLAND PARK, KS 66212-1431
mahlberg@kmea.com

TERRI J PEMBERTON, GENERAL COUNSEL
KANSAS MUNICIPAL ENERGY AGENCY
6300 W 95TH ST
OVERLAND PARK, KS 66212-1431
pemberton@kmea.com

DARREN PRINCE, MANAGER, REGULATORY & RATES
KANSAS MUNICIPAL ENERGY AGENCY
6300 W 95TH ST
OVERLAND PARK, KS 66212-1431
prince@kmea.com

DIXIE RIEDEL, DIRECTOR OF NATURAL GAS, KMGA
KANSAS MUNICIPAL ENERGY AGENCY
6300 W 95TH ST
OVERLAND PARK, KS 66212-1431
riedel@kmea.com

CERTIFICATE OF SERVICE

25-BHCG-298-RTS

GLENDA CAFER, MORRIS LAING LAW FIRM
MORRIS LAING EVANS BROCK & KENNEDY CHTD
800 SW JACKSON STE 1310
TOPEKA, KS 66612-1216
gcafer@morrislaing.com

LUKE A. SOBBA, ATTORNEY
MORRIS LAING EVANS BROCK & KENNEDY CHTD
800 SW JACKSON STE 1310
TOPEKA, KS 66612-1216
lsobba@morrislaing.com

WILL B. WOHLFORD, ATTORNEY
MORRIS LAING EVANS BROCK & KENNEDY CHTD
300 N MEAD STE 200
WICHITA, KS 67202-2745
wwohlford@morrislaing.com

PHOENIX Z. ANSHUTZ, ATTORNEY
PENNER LOWE LAW GROUP, LLC
245 N WACO STREET, STE 125
WICHITA, KS 67202
panshutz@pennerlowe.com

FRANK A. CARO, JR., ATTORNEY
POLSINELLI PC
900 W 48TH PLACE STE 900
KANSAS CITY, MO 64112
fcaro@polsinelli.com

JARED R. JEVONS, ATTORNEY
POLSINELLI PC
900 W 48TH PLACE STE 900
KANSAS CITY, MO 64112
jjevons@polsinelli.com

RICHARD L. HANSON
RICHARD L. HANSON
16171 ROAD I
LIBERAL, KS 67901
rlhanson@wbsnet.org

LAURA PFLUMM CEREZO, ATTORNEY
SEABOARD ENERGY KANSAS, LLC
D/B/A SEABOARD CORPORATION
9000 W 67TH STREET
STE 200
MERRIAM, KS 66202
laura.cerezo@seaboardcorp.com

LAURA PFLUMM CEREZO, ATTORNEY
SEABOARD ENERGY KANSAS, LLC
D/B/A SEABOARD FOODS LLC
9000 W 67TH STREET
STE 200
MERRIAM, KS 66202
laura.cerezo@seaboardcorp.com

JENNIFER CHARNO NELSON, ATTORNEY
SEABOARD ENERGY KANSAS, LLC
D/B/A SEABOARD CORPORATION
9000 W 67TH STREET
STE 200
MERRIAM, KS 66202
jennifer.nelson@seaboardfoods.com

JENNIFER CHARNO NELSON, ATTORNEY
SEABOARD ENERGY KANSAS, LLC
D/B/A SEABOARD FOODS LLC
9000 W 67TH STREET
STE 200
MERRIAM, KS 66202
jennifer.nelson@seaboardfoods.com

STACY WILLIAMS, SVP, GENERAL COUNSEL
SYMMETRY ENERGY, LLC
1111 Louisiana St.
Houston, TX 77002
stacy.williams@symmetryenergy.com

CERTIFICATE OF SERVICE

25-BHCG-298-RTS

DON KRATTENMAKER, VICE PRESIDENT
WOODRIVER ENERGY, LLC
633 17th STREET, STE. 1410
DENVER, CO 80202
don.krattenmaker@woodriverenergy.com

Ann Murphy

Ann Murphy