**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	**)**	**Docket No. 25-BHCG-298-RTS**
the Commission to Make Certain Changes	**)**	
in its Rates for Natural Gas Service	**)**	

DIRECT TESTIMONY

PREPARED BY

CHAD UNREIN

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

May 9, 2025

[REDACTED VERSION]

** [redacted]** Denotes Confidential Information

Contents

I. Introduction, Qualifications, Assigned Responsibilities

Q. Would you please state your name?

A. My name is Chad Unrein.

Q. What is your business address?

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

Q. By whom are you employed and in what capacity?

A. I am employed by the Kansas Corporation Commission (Commission) as the Chief of Accounting and Financial Analysis.

Q. Would you please describe your educational background and business experience?

A. I graduated with a Bachelor's of Business Administration (B.B.A.) with an emphasis in Accounting and a Certificate in Leadership Studies from Washburn University in 2004. In addition, I hold a Master's Degree in Business Administration (M.B.A) from Washburn University that was completed in 2010.

Prior to graduating with my B.B.A, I started an internship with Westar Energy, Inc. (d/b/a Evergy Central). Following graduation, I was hired as an Associate Accountant in the Financial Reporting Department of Westar Energy with various responsibilities, including the preparation of financial statements, FERC Regulatory Reporting, and developing financial analysis for managerial reports. In 2005, I accepted a position as a Risk Management Analyst in Westar's Risk Management Department, which is responsible for the oversight of Westar's asset and non-asset based energy marketing portfolios. My primary responsibilities in this position included counterparty credit analytics to establish credit limits, and virtual transaction reporting.

In 2006, I accepted a position at Security Benefit Group as a Portfolio Performance Analyst in their Asset Management Department. I was responsible for a variety of benchmarking analysis, risk/return evaluations, and portfolio performance assessments, with the purpose of aiding fund managers in assessing fund performance.

I began my employment with the Commission as a Regulatory Auditor in January of 2014. At the Commission, I served in a variety of auditing positions with differing levels of responsibilities in the Commission's review of State, Federal, and Southwest Power Pool's regulatory matters. My most recent promotion to the Chief of Accounting and Financial Analysis occurred in February of 2024. My current role includes the management of the Audit section of the Utilities Division.

While employed with the Commission, I've participated in and directed the review of various tariff/surcharge filings and rate case proceedings involving electric, natural gas distribution, water distribution and telecommunications utilities. In my new capacity as Chief of Accounting and Financial Analysis, I am responsible for supervising the activities of the Commission's Audit section. In that capacity, I plan, manage, and perform audits relating to utility rate cases, tariff/surcharge filings, fuel cost recovery mechanisms, transmission delivery charges, alternative-ratemaking mechanisms, and other utility filings which have an impact on utility rates in Kansas.

Q. Have you ever testified before the Commission?

A. Yes, I filed testimony in Docket Nos. 14-SPEE-507-RTS, 14-BHCG-502-RTS, 14-MRGT-097-KSF, 15-SPEE-519-RTS, 15-SPEE-161-RTS, 15-KCPE-116-RTS, 16-MKEE-023-TAR, 16-SPEE-497-RTS, 16-KGSG-491-RTS, 17-SPEE-476-RTS, 18-WSEE-328-RTS, 18-KCPE-480-RTS, 19-MPCE-064-COC, 19-GBEE-253-ACQ, 19-EPDE-223-RTS, 24-EKCE-775-RTS, and 24-KGSG-610-RTS.

Q. Please provide an overview of Black Hills' filed rate case Application in Docket No. 25-BHCG-298-RTS (25-298 Docket).

Black Hills/Kansas Gas Utility Company ("Black Hills" or "Company") filed an Application on February, 3, 2025, which requests a gross revenue requirement increase of $21.6 million in its natural gas service rates.[1] After accounting for the rebasing of $4.3 Million (M) in GSRS revenues that is recovered through the GSRS surcharge, Black Hills requests an increase to Kansas customers rates of $17.2 Million, as $4.3 M of the gross revenue requirement would be rebased from its Gas Safety and Reliability Surcharge.[2] Black Hills request is supported by pro-forma revenues of $63.7 M, pro-forma expenses of $54 M, pro-forma rate base of $306 M and net operating income of 9.8 M.[3] Black Hills' revenue requirement request includes projected rate base and cost of service items through September 30, 2025, which is one-year beyond its filed test period of September 30, 2024.

Black Hills' revenue requirement study includes a weighted average cost of capital (WACC) of 7.63%.[4] Black Hills' calculation of its WACC includes: a capital structure of 49.56% debt and 50.44% equity, a cost of debt of 4.71%[5], and a return on equity (ROE) of 10.5%. The components of Black Hills' WACC calculation are also projected through its proposed pro-forma period of September 30, 2025. Black Hills' requested ROE of 10.5% is supported by the analysis of Black Hills' witness Mr. Adrien M. McKenzie.[6]

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[1] *See* Direct Testimony of Robert Daniel, p. 4.
[2] *See Id.*
[3] *See* Samantha K. Johnson Testimony, sponsoring Black Hills revenue requirement study in KSG Direct Exhibit SKJ-2 .
[4] *See* Direct Testimony of Thomas D. Stevens, p. 18.
[5] *See Id, p.15.*
[6] *See* Direct Testimony of Adrien M. McKenzie, CFA, page No. 4.

Q. Please outline Black Hills' corporate structure.

A. Black Hills is a wholly owned subsidiary of Black Hills Utility Holdings, Inc. ("BHUH"). BHUH is a wholly owned subsidiary of Black Hills Corporation, which is listed on the New York Stock Exchange as "BKH".

Q. What were your responsibilities in the review of Black Hills' Application filed in Docket No. 25-BHCG-298-RTS ("25-298 Docket")?

A. As the Chief of Accounting and Financial Analysis, I was responsible for managing and conducting an audit of the rate case Application filed by Black Hills, requesting a net rate increase of $17,207,752. Throughout the Audit, I provided direction and support for the audit section's responsibilities in the review of Black Hills' pro-forma adjusted revenue requirement in the 25-298 Docket. I assigned staff to review Black Hills' revenue requirement study, which supports its cost of service and pro-forma adjustments. Managing Auditor, Katie Figgs was assigned to lead the Black Hills' audit and sponsor Staff Schedules, which supports a net revenue requirement increase of $9,184,235.[7] Ms. Figgs provides a table in her testimony reviewing assigned adjustments and summarizing their impact on rate base or operating income.

My direct responsibilities in this filing were to review the impact of Black Hills' capital expenditure (Capex) that occurred between its 2021 rate case filing in Docket No. 21-BHCG-418-RTS (21-418 Docket), examine the recovery Black Hills received through its Gas Safety and Reliability Surcharge (GSRS), and calculate Black Hills' annual earned return on equity.

[7] Staff revenue requirement study supports a gross revenue requirement increase of $13,561,650, which includes the rebasing of the GSRS of $4,377,415.

Furthermore, my testimony addresses the following Black Hills requests: i.) to file an abbreviated rate case following the final Commission Order in this docket; ii.) to continue its current use of the GSRS Rider and Ad Valorem Tax Surcharge Rider; iii) to receive Commission authorization to use regulatory accounting treatment for insurance expense through an insurance tracker; and iv) to revise its tariff rate for Non-Telemetered Daily Balancing Service Charge of $0.009 per Therm to $0.015 per Therm.

The recommendations resulting from Staff's audit of Black Hills' Application and the recommendations contained in my Direct Testimony were overseen by Justin T. Grady, Deputy Director of the Utilities Division.

II. Executive Summary

Q. Please explain the structure of your testimony and the purpose of each Section.

A. The remaining portion of my testimony is summarized into three sections and the objective of each section is detailed below.

Section III: Overviews Black Hills' capital investment and provides analysis of the revenue requirement impact of its plant investments on its requested return and depreciation expenses. In this section, I provide a detailed breakdown of the operational categories of Black Hills' plant in-service investment in its Kansas gas distribution system, including corporate allocated plant. Then, I examine the drivers of Black Hills' system investments. Finally, I summarize Black Hills' rebasing of the GSRS Riders revenue requirement and provide an overview of Black Hills' Capital Expenditure Plan and projected GSRS eligible investments from 2025 through 2029.

Section IV: Summarizes Black Hills' request to file an abbreviated rate case following the final Commission Order in this Docket. In this Section, I provide background information on internal meetings that Staff had with Black Hills and CURB on the abbreviated rate case filing. I review Black Hills' proposal for an Abbreviated rate case filing and discuss areas of disagreement with the proposal. I summarize my recommend modifications of the Abbreviated rate case filing. Based on the modifications, I discuss Staff's recommendation that the Commission support its modified version of Abbreviated rate case filing.

Section V: Review and recommend the Commission's approval for the renewal of alternative ratemaking mechanisms included in Black Hills' Application, including the renewal of the GSRS and Ad Valorem surcharge. I review Black Hill's request and recommend approval for regulatory accounting treatment of insurance expense through the creation of a tracking mechanism. I review Black Hills' tariff request for the change in the Non-Telemetered Daily Balancing Service from $0.009 per Therm to $0.015 per Therm. Finally, I recommend approval of Black Hills' requested change in the rate for the Non-Telemetered Daily Balancing Service.

III. Analysis of Black Hill's Capital Expenditure ("Capex") Growth, Revenue Requirement Impact of Capex, and Earned ROE

Q. Please summarize the purpose for Staff's review of Capex growth and the impact on the revenue requirement and earned ROE.

A. This section of my testimony provides the Commission with information regarding the impact of Black Hills' capital investment on the revenue requirement in this Docket. I present the Black Hills' cost recovery received through its GSRS filings and analyze Black Hills' projected investment in its 2025 Capital Expenditure Plan for investment from 2025 through 2029. Finally, I present Black Hills' calculation of earned ROE from 2019 through 2023.

Q. Has Staff completed a review of Black Hills' growth in Capital Additions and their impact on Staff's revenue requirement?

A. Yes, Staff performed an evaluation of Black Hills' capital investment to analyze their impact of the revenue requirement in this Docket.

Daniel Buller's Direct Testimony sponsors Staff's update to Black Hills' plant and accumulated depreciation balances, and the corresponding update to depreciation expense for 12-month period ending February 28, 2025.[8] Ms. Figgs's Direct Testimony sponsors Staff's update of Accumulated Deferred Income Taxes (ADIT) through the February 28, 2025, update period.[9] These adjustments synchronize rate base with the most recent known and measurable data available within the procedural framework of the Commission's timeline for processing a rate case.

Staff capital investment analysis in this rate case was performed in the same fashion as we have done in the previous Evergy and Kansas Gas Service rate filings. The calculation is designed to examine the impact of plant investments on the revenue requirement through increases in return on rate base and depreciation expense. Staff would note that the net change in depreciation expense was driven by plant investment as Black Hills chose not to file a new depreciation study with revised depreciation rates.

Staff issued multiple discovery requests to review Black Hills capital investments and analyze their impact on the current revenue requirement. In addition, Staff

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[8] *See* the Direct Testimony of Daniel Buller, Section III: Rate Base Adjustments (A) Plant in Service (B) Accumulated Depreciation, pp. 4-6; and Section IV: Income Statement Adjustments, (A) Depreciation Expense, p. 9.
[9] *See* the Direct Testimony of Katie Figgs.

requested Black Hills provide its 2025 Capital Plan for its projected investments from 2025 – 2029. Staff tied out Black Hills' responses to filed KCC Annual Reports and FERC Form 2 filed with the Commission annually.

A. Review of Black Hills' Capital Investment

Q. Please discuss Staff's review of Black Hills capital additions in its general and corporate plant and natural gas distribution system.

Staff compiled Black Hills' capital investment data from its response to KCC Data Request No. 190 (KCC DR-190).[10] Black Hills' response to KCC DR-190 contained a table of Black Hills' (KSG) direct investment in its Kansas natural gas distribution system by operational category. Additionally, Black Hills provided the yearly balance of its corporate-allocated investment to Black Hills. Staff included the year-over-year growth in the corporate-allocated plant balance in the calculation of Black Hills total Capex spend.

Q. Did Staff use any other data source in its evaluation of Black Hills Capex?

A. Yes, Staff incorporated data from the Direct Testimony of Marc Eyre, specifically Table MTE-2: Historical Capital Additions. In Mr. Eyre's analysis, Black Hills projected its capital investment from the end of the last rate case update of June 30, 2021, through Black Hills' pro-forma test period of September 30, 2025. In Staff's analysis of capital investment, Staff incorporated the capital investment that Black Hills incurred following Staff's update period for rate base through June 30, 2021, in the 21-418 Docket.

[10] *See* KCC Data Request No. 9: Historical Capital Investment

Q. How does Staff's analysis differ from Black Hills' analysis presented by Mr. Eyre?

A. Staff's analysis of capital expenditure relies on known and measurable changes to Black Hills' capital investment, rather than projecting forward Black Hills' anticipated capital investments through September 30, 2025.

Q. Please present Staff's calculation of the capital investment Black Hills has incurred since its last rate case that directly benefit Kansas ratepayers.

The following table presents Black Hills' capital investments for the period of July 1, 2021, through March 31, 2025.

Black Hills Energy (KSG): Capital Investment
(Data in Millions)

Plant Category	2021(1)	2022	2023	2024	2025(2)	Total
GAS PLANT: BHE (KSG) - KANSAS DIRECT						
Intangible Plant	$ -	$ -	$ -	$ -	$ -	$ -
Production Plant	-	-	-	-	-	-
Storage Plant	-	-	-	-	-	-
Transmission Plant	1.7	1.9	0.6	2.1	0.7	6.9
Distribution Plant	13.3	21.0	20.1	25.0	4.4	83.6
General Plant	0.5	0.9	3.4	3.0	0.8	8.6
Generation Projects - Total	$ 15.4	$ 23.8	$ 24.0	$ 30.1	$ 5.9	$ 99.2
BLACK HILLS - CORPORATE ALLOCATION - KS						
General Plant - Corporate (YOY Variance)	1.7	0.8	1.8	0.8	(0.5)	4.5
BH: Total Capital Investments	$ 17.0	$ 24.5	$ 25.9	$ 30.9	$ 5.4	$ 103.7

(1) Black Hills Capital Investment includes plant additions from July 1, 2021, through December 31, 2021,
(2) Black Hills Capital Investment includes plant additions from January 1, 2025, through March 31, 2025.

Source:
Black Hills' Response to KCC Data Request No. 190.
Direct Testimony of Marc T. Eyre, Table MTE-2, Table MTE-2.

As seen in the table above, Black Hills invested $103.7 million in its gas distribution system from January 1, 2021, through March 31, 2025.[11] Black Hills' investment in its

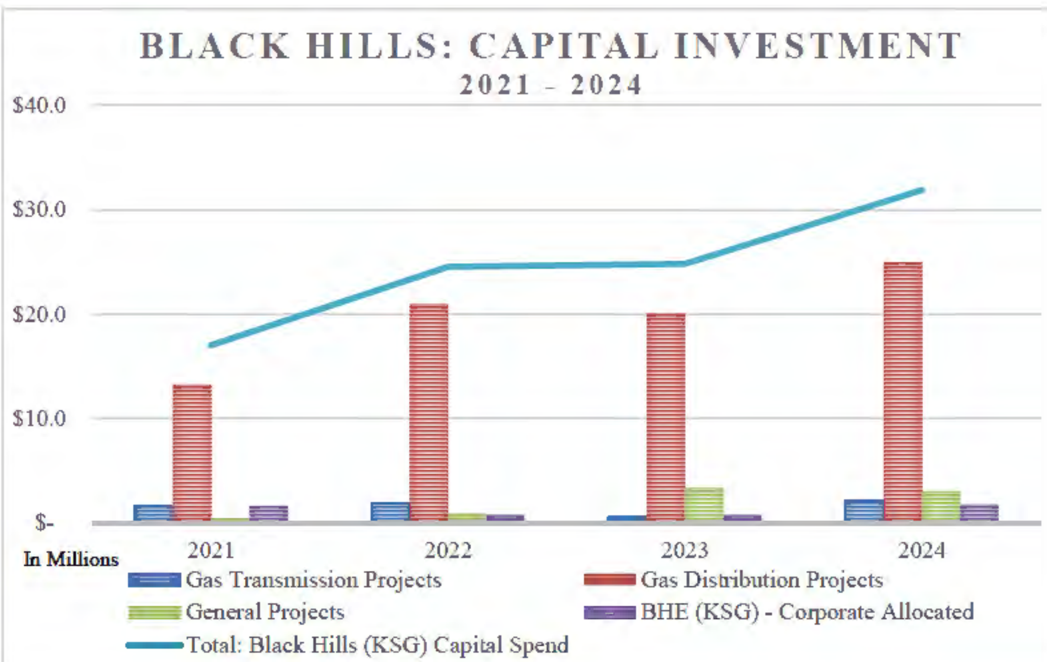
[11] Staff captured Black Hills' gross capital investment to examine its impact on Black Hills' revenue requirement calculation. The table does not capture any offsetting rate base reductions for growth of accumulated depreciation and ADIT.

gas distribution projects accounted for $83.6 million or approximately 80.7% of the growth in Plant in Service in its Kansas system.

Black Hills has steadily increased its yearly capital investment from a low of $24.5 million in 2021 to a high of $30.1 million in 2024. Through March 31, 2025, Black Hills' capital investment totaled $5.4 million, with a projected capital spend of an additional $19 M through the third quarter of 2025.[12]

Q. Please include a breakdown of Black Hills' capital investment by plant category.

A. Staff created the following graph to help illustrate Black Hills' total capital investment by plant category during each operating period between its rate case filings.[13]



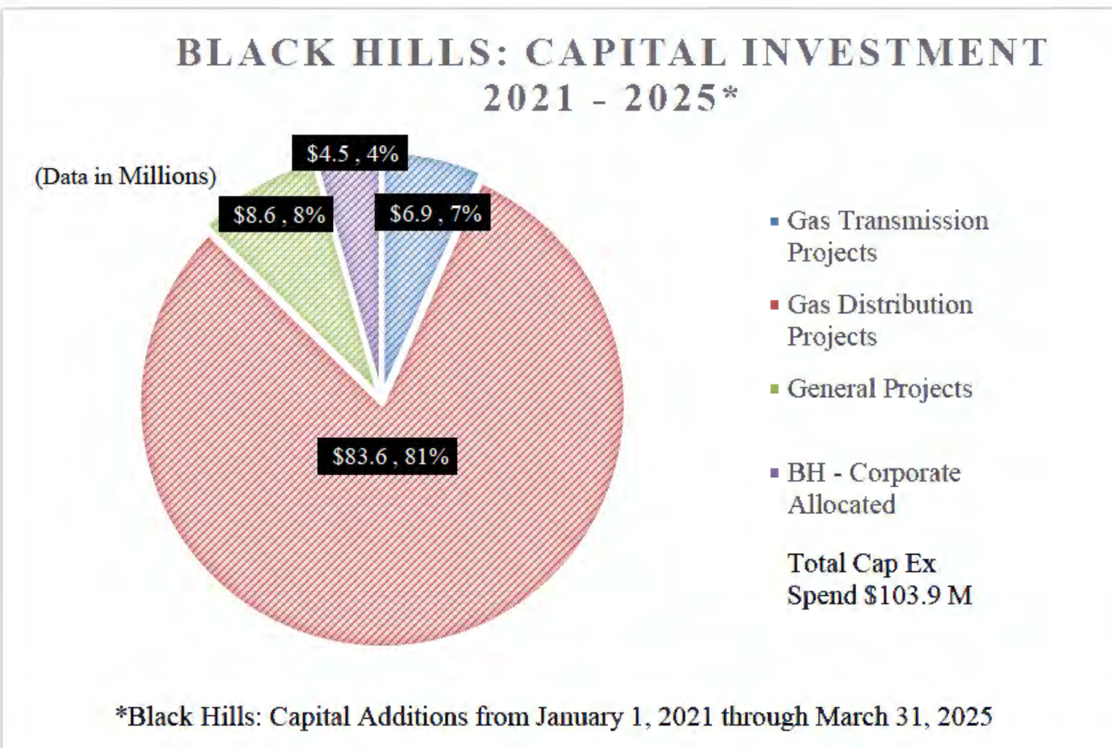
As displayed in the graph above, Black Hills has increased its total capital investment yearly from the close of Staff's update period in June 30, 2021, in the 21-418 Docket. For the calendar year of 2021, Black Hills incurred $47M of total capital investment in

[12] See Direct Testimony of Marc T. Eyre, Table MTE-3: Pro Forma Capital Additions by Month for Black Hill's projected monthly capital investment through September 30, 2025.
[13] *See* KGS Response to KCC Data Request No. 284: Capital Investment.

2021, with a total of $17 M incurring outside of Staff's update period in the 21-418 Docket.

Q. Please provide a breakout of Black Hills' total capital growth by plant category between its filing in its 21-418 Docket and through March 31, 2025.

A. Staff aggregated Black Hills' total CapEx investment in plant and compared the total investment by plant category. The following pie chart details Black Hills' total CapEx spend by plant category and the percentage contribution to the $103.9 million Black Hills' project investment in the system during this period.[14]



As previously discussed, Black Hills' distribution gas investment accounted for the vast majority of the total system investment from July 1, 2021, through March 31, 2025. Gas distribution investment totaled $83.6 million, accounting for 81% of the total system

[14] *See* KGS Response to KCC Data Request No. 190: Capital Investment.

investment.[15] Black Hills' general project investment ranked second with a total capital spend of $8.6 million or 8% of the total system investment.[16] Black Hills' transmission plant investment accounted for $6.9 million or 7% of Black Hills' total Capex.[17] The remaining Black Hills' investment resulted from the corporate allocation of general projects, totaling $4.5 million or 4% of Black Hills' total Capex spend.[18]

Q. Please discuss the primary drivers of Black Hills' capital investment that it has made in Kansas.

A. While the vast majority of Black Hills' investment has been on capital projects for its distribution system, the testimony of Black Hills' witness Marc Eyre discuss the general forces behind the capital investment made in the Black Hills' system. Mr. Eyre states:

> [The] capital investment reflected by functional class, [Table MTE-2] make up the critical safety, integrity, reliability, growth, and general plant additions that are benefiting Kansas customers and communities across our service territory.

In KCC Data Request No. 191 (KCC DR-191), Staff requested that Black Hills break out its plant investment into various cost drivers tracked by Black Hills. In its response, Black Hills provided seven primary categories of plant investment of capital investment in its system:

1. Replacement of pipeline facilities that have reached the end of their useful service lives;
2. Compliance with regulatory requirements established at the federal, state, and local levels;
3. Reinforcement of the system for periods of adverse weather and growth,

[15] See Table of Black Hills: Capital Investment 2021 - 2025.
[16] *See Id.*
[17] *See Id.*
[18] *See Id.*

4. Relocation of pipeline facilities as required by city, county, and state roadway projects.
5. Growth from pipeline needed to serve new customers.
6. Facilities & equipment investment.
7. Third party damages and damage recoveries.

In Black Hills' response to KCC Data Request No. 191 A: Capital Investment Drivers, Black Hills' provided the following table that presents the capital expenditures attributed to each category of cost drivers from 2021 through 2025.

BLACK HILLS - DRIVERS OF CAPITAL INVESTMENT						
Category of Driver:	2021	2022	2023	2024	2025	Total
1: End of Service Life	$ 20,340,979	$ 13,941,616	$ 15,313,332	$ 13,491,146	$ 3,425,616	$ 66,512,690
2: Regulatory	-	291,410	(55,924)	755,748	2,731	993,965
3: System Reinforcement	10,952,166	1,373,416	2,100,874	6,330,858	345,867	21,103,181
4: Public Works	496,573	2,554,588	673,504	850,638	600,888	5,176,192
5: New Growth	9,610,162	5,112,814	5,604,592	7,404,411	1,275,376	29,007,355
6: Facilities & Equipment	5,542,094	617,414	584,339	836,404	187,965	7,768,217
7: Third Party Damages	89,091	(110,490)	(172,872)	412,295	54,178	272,203
Total	$ 47,031,066	$ 23,780,768	$ 24,047,846	$ 30,081,501	$ 5,892,622	$ 130,833,803

Source:
Black Hills' Repsonse to KCC Data Request No. 191: Drivers of Capital Expenditures

As seen in the table above, Black Hills' invested $130.8 million in capital projects from January 1, 2021, through March 31, 2025.[19] End of service life projects accounted for $66.5 million or 50.8% of Black Hills' total capital investments. Other key contributors to Black Hills' system investments included: New Growth projects of $29 million or 22.2% of total capital investments, and System Reinforcement projects of $21.1 million or 16.1% of total capital investments.

[19] Black Hills' included approximately $30 million of investment that it made from January 1, 2021, through June 30, 2021, which were incorporated into rates in the 21-418 Docket. Costs drivers were provided per calendar year.

B. Revenue Requirement - Impact of Capex Additions

Q. How do the gross plant and accumulated depreciation balances impact Black Hills' revenue requirement?

A. The gross plant and accumulated depreciation balances are netted against each other to calculate Black Hills' net plant position. The net plant balances and other adjustments, such as ADIT, regulatory assets and liabilities, etc. are reflected in a utility's rate base. The rate base is what Black Hills' investors are provided a return on through a Commission-approved rate of return (ROR).[20] The Commission authorized ROR results from Black Hills' costs of debt and return on equity, which are applied based on the weightings of each type of capital in the company's capital structure.

The inclusion of depreciation and amortization expenses in the revenue requirement provides investors with the return of the investment for the assets across their useful life. The fully adjusted pro forma adjusted plant balances will have calculated depreciation rates applied to determine the total depreciation expense included in the revenue requirement. Depreciation rates are proposed in depreciation studies that are designed to evaluate the useful life of asset classes for utility project investment. Amortization expense is used for intangible assets, such as information technology systems, and is accounted for like depreciation expense by spreading the costs of the asset across the assets useful life. These costs are combined to produce Black Hills' return included in the cost of service.

[20] In 21-418 Docket, the Commission approved a Pre-tax ROR of 7.78% that is applied as a carrying charge in Black Hills' GSRS filings.

Q. Please discuss the process Staff performed to calculate the Black Hills' plant positions and the impact on revenue requirement.

A. During a rate case audit, Staff updates the gross plant balances and accumulated depreciation reserves, and ADIT to the most recent actuals through an update period. For inclusion in the update in Black Hills' proceeding, the project had to be completed and placed into service by February 28, 2025.

Staff calculates its adjustment by comparing Staff's position against Black Hills' Pro Forma Plant in Service in Schedule No 3. Staff applied the same process of updating balances to February 28, 2025, to Black Hills' accumulated Provision for Depreciation and Amortization in Schedule No. 5. Staff would note that Black Hills projected its plant in service and accumulated depreciation through September of 2025, where Staff's adjustment incorporates Black Hills' actual plant in service and accumulated depreciation balances as February 28, 2025. In addition, Staff calculated Black Hills' Construction Work in Progress (CWIP), which was projected through September 30, 2025. Construction Work in Progress is governed by K.S.A. 66-128, and includes a return on investment in rate base, but does not receive depreciation expense for projects expected to be placed into service, following Staff's update period of February 28, 2025, through September 30, 2025.

In a separate adjustment, Staff updates depreciation expense, using Staff's pro forma adjusted plant balances multiplied by the existing depreciation rates approved for each plant account to calculate an updated depreciation expense through February 28, 2025.[21]

[21] *See* KCC Order approving Unanimous Settlement Agreement filed on December 30, 2021, in the 21-418 Docket. The Commission-approved depreciation rates that were included in the Settlement Agreement filed on October 8, 2021, which were set based on Staff's filed depreciation study in 21-418 Docket.

Daniel Buller sponsors Staff adjustment to plant in service, accumulated depreciation, CWIP, and depreciation expense in his Direct Testimony.

As stated, Staff also updated ADIT corresponding to Staff's plant update through February 28, 2025. Accumulated Deferred Income Taxes is included as a rate base offset for tax timing difference between the accelerated depreciation included in taxes versus the straight-line depreciation used in regulatory filings for Black Hills' direct and corporate plant. Katie Figgs sponsors Staff update to ADIT in this filing.

By netting Black Hills' net plant position against ADIT, Staff calculated the net rate base position for plant, accumulated depreciation and ADIT and then, multiplied the net change in rate base by Staff's pre-tax rate of return[22] to calculate the increased return related to Black Hills' rate base growth between its rate case filings.

Finally, Staff added the return on rate base growth and the net change in Staff's calculation of depreciation and amortization expense captured in Staff's update to plant in service and the depreciation rates to the total revenue requirement impact related to plant investments between Black Hills' rate cases.

Q. Please discuss the calculation mechanics Staff performed to calculate the Revenue Requirement impact of Black Hills' capital investment between rate cases.

A. In reviewing the Order approving the Stipulation and Agreement in the 21-418 Docket, Staff's filed Schedules related to plant investment were updated based on Staff's positions during the settlement process and included the terms of the black-box settlement, including the roll-in of $6,610,982 in GSRS Rider into base rates from the

[22] *See* Direct Testimony of Adam Gatewood for Staff's recommendations on KGS's calculated return, based on the cost of debt, return on equity, and its capital structure of debt vs. equity position. Data contained in Staff Schedule No. C-1.

Docket No. 22-BHCG-434-TAR, and the agreement to no net increase in Black Hills' base revenue requirement filed in the Unanimous Settlement Agreement (Settlement Agreement).[23]

Using Staff's Settlement Schedules, Staff incorporated the Plant in Service balances by plant category and calculated the variance in Plant in Service between the 21-418 Docket and Staff's position in the 25-298 Docket. Similar to Staff's calculation for plant in Service, Staff calculated the difference in the provision for accumulated depreciation and amortization positions needed to calculate the difference in net plant positions. After determining the differences between plant and accumulated depreciation, Staff calculated the change in net plant positions between Staff's recommendations in the 21-418 rate case and the 25-298 rate case. Next, Staff removed the change in Accumulated Deferred Income Taxes (ADIT) and Excess Deferred Income Taxes (EDIT) for both Black Hills' and it corporate-allocated ADIT & EDIT to arrive at a net Rate Base impact.[24]

Staff multiplied the change in Rate Base by its proposed Pre-tax ROR[25] to calculate the Revenue Requirement impact related to Black Hills' plant investments between rate filings Next, Staff calculated the change in the total depreciation and amortization expenses between rate cases to determine the net increase in depreciation and

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[23] *See* Order Approving Partial Unanimous Settlement Agreement, 18-560 Docket (Feb. 5, 2019) (18-560 Settlement Order).

[24] ADIT is included as a rate base offset to account for tax timing difference in between the accelerated depreciation included in taxes versus the straight-line depreciation used in regulatory filings for KGS's direct and corporate plant.

[25] *See* the Direct Testimony of Adam Gatewood, supporting Staff's calculation of the Weighted Average Cost of Capital (WACC) of 6.94%. The WACC calculation is supported with Black Hills' actual cost of debt of 4.61% as of February 28, 2025, a return on equity of 9.7%, a capital structure consisting of 54.24% debt and 45.76% equity. For future GSRS surcharges, Staff's calculation of the Pre-Tax ROR of 8.12% for the carrying charge.

amortization expense. Staff added the return on Rate Base growth and the net change in Staff's calculation of Depreciation and Amortization expense to calculate the net Revenue Requirement impact of plant investments between Black Hills' rate cases.

C. Calculation of the Revenue Requirement Impact for Black Hills' Capital Investment

Q. Please discuss Black Hills' Plant Additions in the GSRS Revenue Requirement.

A. Staff prepared the following table that summarizes the revenue requirement impact for Black Hills' plant investment in its natural gas system between rate cases.

BLACK HILLS: REVENUE REQUIREMENT IMPACT OF CAPITAL INVESTMENT[1]

GAS PLANT IN SERVICE:	25-298 DOCKET	21-418 DOCKET	Increase/(Decrease)
INTANGIBLE	$ 3,508,760	$ 3,508,760	$ -
PRODUCTION PLANT	-	18,719	(18,719)
STORAGE PLANT		-	-
TRANSMISSION PLANT	64,986,046	58,327,671	6,658,375
DISTRIBUTION PLANT	357,308,516	276,835,516	80,473,000
GENERAL PLANT	32,519,608	29,585,761	2,933,847
CORPORATE ALLOCATED PLANT	16,874,915	13,463,445	3,411,470
TOTAL ELECTRIC PLANT IN SERVICE	$ 475,197,845	$ 381,739,872	$ 93,457,973
LESS: ACCUM. PROV. FOR DEPR. & AMORT.	(136,257,471)	(106,922,378)	(29,335,093)
NET GAS PLANT IN SERVICE	$ 338,940,374	$ 274,817,494	$ 64,122,880
OTHER PLANT RELATED WORKING CAPITAL			
CONSTRUCTION WORK IN PROGRESS	$ 3,471,949	$ -	$ 3,471,949
REGULATORY LIABILITIES:			
ACCUMULATED DEFERRED INCOME TAXES - PROPERTY	(45,213,236)	(27,807,473)	(17,405,763)
REGULATORY LIABILITIES FOR FEDERAL TCJA EDIT	(11,157,761)	(16,194,866)	5,037,105
REGULATORY LIABILITIES FOR KANSAS EDIT	-	(3,733,744)	3,733,744
ACCUMULATED DEFERRED INCOME TAXES - OTHER	(172,580)	(30,209)	(142,372)
ALLOCATED BLACK HILLS SERVICE COMPANY ADIT & EDIT	(1,643,497)	(2,447,005)	803,508
ADIT & EDIT - TOTAL	(58,187,073)	(50,213,296)	(7,973,777)
RATE BASE IMPACT	$ 280,753,301	$ 224,604,198	$ 59,621,052
PRE-TAX RATE OF RETURN			8.1200%
REV. REQ. INCREASE FOR PLANT INVESTMENTS			$ 4,841,229
DEPRECIATION & AMORTIZATION EXPENSE	$ 12,364,166	$ 9,854,830	2,509,336
TOTAL REVENUE REQUIREMENT IMPACT			$ 7,350,565

[1]*See* Staff filed schedules filed in Docket No. 25-BHCG-298-RTS & Docket No. 21-BHCG-418-RTS (Settlement).

As calculated in the table, Black Hills' capital additions account for $7,350,565 or 54.2% of the $13.6 million included in Staff's gross revenue requirement. The roll-in of the GSRS for the return on qualifying infrastructure investment and change in depreciation expenses account for $4.4 million or 32.3% of the gross revenue requirement Staff is supporting in this proceeding.

D. Black Hills – Revenue Requirement included in GSRS filings

Q. Did Staff perform a review of Black Hills' investment recovered in its GSRS filings?

A. Yes. In its Application, Black Hill's retained its existing GSRS revenues in the test period and included a Pro forma adjustment that added $1.39 M of incremental revenues from its Commission-approved GSRS filing in Docket No. 24-BHCG-727-TAR (24-727 Docket) to arrive at a net rate increase of $17.2 M. The following table captures Black Hills' GSRS revenue requirement of $4.2 M, with the incremental GSRS revenue requirement of $1.39 M.

BLACK HILLS ENERGY: (KSG)
GAS SAFETY & RELIABILITY SURCHARGE:

Line No.	(A) Summary	(B) Black Hills GSRS Total	(C) GSRS Projects - Docket No. 24-BHCG-727-TAR	(D) GSRS Projects - Docket No. 23-BHCG-800-TAR	(E) GSRS Projects - Docket No. 22-BHCG-503-TAR
	GSRS Plant Investment - Current Period:				
1	Plant in Serice	$ 45,369,195	$ 15,660,854	$ 15,531,458	$ 14,176,883
	Less: Accumulated Depreciation				
2	Accumulated Depreciation - Total (1)	(1,408,391)	(956,245)	(815,777)	363,631
3	Net Plant in Service	$ 46,777,586	$ 16,617,099	$ 16,347,235	$ 13,813,252
	Less: Accumulated Deferred Income Taxes				
4	GSRS ADIT - Total	5,402,079	1,903,334	1,881,144	1,617,601
5	NET GSRS Rate Base	$ 41,375,507	$ 14,713,765	$ 14,466,091	$ 12,195,651
6	Carrying Charge (2)	7.7800%	7.7800%	7.7800%	7.7800%
7	Pre-tax Required Return	$ 3,219,014	$ 1,144,731	$ 1,125,462	$ 948,822
8	Depreciation Expense	1,006,698.00	405,569	313,193	287,936
9	GSRS Revenue Requirement	$ 4,225,712			
	Plus/(Minus) Recovered Balance				
10	(Over)/Under Recovery	(3,846)			
11	GSRS Annualized Revenue Requirement	$ 4,221,866			
12	Previously Authorized GSRS	$ 2,830,936			
	Increment Increase in GSRS Revenues	$ 1,390,930			
13	LESS: Statuary Limit Adjustment	0			
14	Incremental Revenue Requirement [Year-over-Year]	$ 1,390,930			

Black Hills - Notes:

(1) Accumulated Depreciation is a debit balance due to the associated retirements; and, the balance is therefore an increase to net plant; project additions are relatively new and do not have high accumulated depreciation balances yet to offset the balances of retirements.

(2) Carrying Charge of 7.78% gross of tax was established in Docket No. 21-BHCG-418-RTS.

Sources:
Black Hills Application in 24-BHCG-727-TAR - Exhibit ALS-4

Q. Did Staff treat Black Hills' GSRS revenues differently in its schedules?

A. Yes. Staff removed Black Hills' GSRS-related revenues included in the test-year and reversed Black Hill's incremental adjustments from its schedules via Katie Figgs Adjustment No. IS-22, which decreased Black Hills revenues by $4,377,415 in the filing.

The GSRS surcharges are governed under K.S.A. 66-2202 through 66-2204. Two important provisions of the statutes that impact customers include:

K.S.A 66-2204(e)(1), the monthly charge per residential customer shall not increase more than $0.80 per residential customer over the base rates in effect over the most recent filing of a GSRS.

Per K.S.A.66-2204(f)(1), a natural gas public utility shall submit rate schedules to reset the GSRS to zero when new base rates and charges become effective for the natural gas public utility following a commission order establishing customer rates in a general rate proceeding that incorporates in the utility's base rates.

By resetting the GSRS surcharge to zero, Black Hills' will no longer collect these revenues through its GSRS surcharge and base rate revenues need to support the gross revenue requirement, resulting from Staff's gross revenue requirement of $13,561,650. This aligns the schedules, class cost of service study, and rate design to include the revenues previously collected through the GSRS Rider.

Q. What is the net customer impact of Staff's recommendation to support a gross revenue requirement of $13,561,650?

A. After rebasing the GSRS-related already collected from customers via the GSRS surcharge, Staff schedules support a net revenue requirement increase of $9,184,235 to Kansas ratepayers.

E. Black Hills' 2025 Capital Investment Plan from 2025 – 2029

Q. Please provide an overview of Black Hills' Capital Investment Plan for 2025 through 2029.

A. Staff issued Black Hills' discovery for its five-year Capital Investment Plan from 2025 through 2029. In its confidential response to KCC Data Request No. 192, Black Hills' provided the following table that breaks out its 2025 Capital Plan and the amount of investment that would be eligible for collection through its GSRS Surcharge.

**

[redacted]

**

** [redacted] **

Staff would note that roughly two-thirds of Black Hills' projected capital expenditures are eligible for recovery through its GSRS Rider.

F. Black Hills' calculation of Earned ROE vs Authorized ROE from 2021 – 2024

Q. Please discuss Staff's analysis of Black Hills' Earned vs Authorized ROE for the 2021 through 2024 rate periods.

A. Black Hills provides an analysis of its Earned ROE versus Authorized ROE in its confidential response to KCC Data Request No. 188 (KCC DR-188). In the analysis, Black Hills calculates its Earned ROE with data pulled from its KCC filing of its FERC Form 2: Annual Report for year ending 2021 – 2024. Black Hills filed its 2024 Annual Report on May 1, 2025. Following the submission of the Annual Report, Staff requested Black Hills provide a supplemental response to KCC DR-188, which was provided on May 6, 2025.

Black Hills' Earned ROE calculation begins with its rate base and its equity, debt capitalization, and weighted cost of debt. Next, Black Hills' calculates the Utility Net Income and Income Tax expense to arrive at its Net Income for the operating year. Then, Black Hills details its interest expense by operating year. Staff provided the equation Black Hills used to calculate its Earned ROE:

Earned ROE = (Net Income – Interest Expense)/(Rate Base * Equity Percentage)

The following confidential table includes the relevant information for Black Hills' calculation of earned ROE from 2021 – 2024.

** [redacted] **

In the 21-418 rate case, Black Hills, Staff, and CURB, agreed to a black box Settlement that included the roll-in of the GSRS and net rate increase of $0. In the settlement agreement, the parties agreed on a Pre-tax ROR of 7.78% as a carrying charge in the GSRS Rider. With a hypothetical capital structure of 50% Equity and 50% debt, the carrying charge includes a ROE of 9.2%.

G. Summary of Black Hills' Capital Investments

Q. Please summarize Staff's analysis of Black Hills' capital investments in its system.

A. Black Hills' has spent substantial capital in its natural gas distribution system between rate cases, accounting for roughly $7,350,565 or 54.2% of Staff's gross revenue requirement of $13.6 M in this case.

Staff would note that its calculation includes plant in service through February 28, 2025, rather than Black Hills' methodology of projecting its rate base through September 30, 2025. Black Hills anticipated an additional $20.1 M of plant investment to be in service through September 30, 2025. Based on feedback received from Staff and CURB, Black Hills submitted a request for Commission approval of an Abbreviated Rate Case proceeding, which is detailed in Section IV.

IV. Analysis of Black Hill's Request for an Abbreviated Rate Case

A. Summary of Black Hills' request for an Abbreviated Rate Case.

Q. Please provide a summary of Black Hills' Request for an abbreviated rate case.

A. In the Direct Testimony of Robert Daniel, Mr. Daniel summarizes Black Hills' request as follows[26]:

> The Company is requesting Commission approval and authority to file an abbreviated rate case following the conclusion and final order in this rate case proceeding. The Company's abbreviated rate case will allow (a) the Commission to thoroughly consider projects included within the abbreviated case instead of including project estimates in this proceeding, (b) more timely recovery of the Company's necessary capital investments, and (c) a delay in the Company's first GSRS filing for qualifying investments.

[26] *See* the Direct Testimony of Robert Daniel, p. 13.

The abbreviated rate proceeding following this proceeding will be limited in scope. In addition, the abbreviated case will benefit all stakeholders by providing for orderly growth and development of the Company's gas distribution system under full purview of the Commission and Black Hills' customers. An abbreviated rate proceeding will benefit Black Hills in that the Company will be able to recover the cost of capital investment as set forth in Kansas law.[27] That Kansas statute allows a utility one year from the test-year in a general filing to recover the costs of construction projects that are commenced, completed, and placed in service. The abbreviated case capital projects will be reviewed by the Commission to ensure that the capital project expenditures were efficient and prudent.[28]

Q. Please outline the procedural framework for Black Hill's request for an Abbreviated Rate Case filing.

A. Black Hills' requests an Abbreviated rate case pursuant to K.A.R. 82-1-231(b)(3)(a)-(b), as set out here:

> <u>82-1-231. Filing Requirements for Rate Proceedings.</u>
>
> (3) Any utility that proposes a change in rates within 12 months after a commission order following a general rate proceeding and investigation may submit schedules eliminating data that duplicates information provided in the original schedules if both of the following conditions are met:
>
> (A) The utility is willing to adopt all the regulatory procedures, principles, and rate of return established by the Commission in that order.
>
> (B) The utility receives prior approval from the Commission.

[27] K.S.A. § 66-128(b)(2).
[28] K.S.A. § 66-128(b)(3).

Pending Commission Approval from this Docket, Black Hills proposes to file an Abbreviated rate case: to 1) "true-up" plant investments through September 30, 2025; 2) seek recovery for plant in service through December 31, 2025; and 3) address other items that may arise during this rate case.[29]

Q. Please discuss how Black Hills calculated its plant investments in its filed Revenue Requirement Study (RRS) schedule, presented in the Direct Testimony and Exhibits of Samantha K. Johnson.

A. Black Hills' Application and RRS schedules include Black Hills' full inclusion of plant in service balances through the end of the Pro Forma Period, September 30, 2025, which includes all associated impacts to plant in service, accumulated depreciation, accumulated deferred income taxes, and depreciation expenses.[30]

Mr. Daniel notes in his testimony that Black Hill's prioritizes the parameters of the abbreviated rate case proposal, which will take precedence over the Company's requested rate treatment for plant in service in its Application.

Q. If the Abbreviated rate case process is approved by the Commission, how would Black Hills' plant investment be treated in this Docket?

A. A complete summary of Black Hills' requests can be found in Mr. Daniel's testimony.[31] A summary of Black Hills' requests is presented below.

1. Black Hills' CWIP balance on Black Hills' books and records at the end of February 28, 2025, and expected in service by September 30, 2025, be included in the calculation of rate base in the proceeding.

[29] *See* Direct Testimony of Robert Daniel, p. 14.
[30] *See Id, p. 15.*
[31] *See Id, p. 15.*

2. Black Hills' projection of its plant in service, accumulated depreciation, ADIT, and depreciation expenses to September 30, 2025, be used to set rates in this Docket.
3. In the abbreviated rate case, Black Hills will true-up the estimated plant in service, accumulated depreciation, ADIT, and depreciation expense with actuals through September 30, 2025. Any over- or under-recoveries will be subject to a carrying charge determined by the outcome of this case.
4. Black Hills' plans to update plant in service, accumulated depreciation, ADIT, and depreciation expense through December 31, 2025, in the abbreviated rate case.
5. Address any outstanding items that remain outstanding.

Q. Does Black Hills discuss any benefits of the abbreviate rate case process as a benefit for customers of Black Hills?

A. Yes, Black Hills abbreviated rate case would delay the filing of the GSRS filing by approximately nine months. Black Hills intends the filing to be a streamlined process focused on a plant in service update, similar to a GSRS audit.

B. Staff's Review and Analysis of Black Hills' Abbreviated Rate Request

Q. Did Staff have conversations with Black Hills regarding its requested abbreviated rate filing?

A. Staff and Black Hills' regulatory team meet quarterly to discuss operations, fuel, rate and other regulatory issues that impact Black Hills and its Kansas ratepayers. During the Q3 meeting of 2024, Black Hills requested to meet with Staff to preview the rate filing and receive feedback.

Staff and Black Hills held the first docket meeting on November 21, 2024. During this meeting, Black Hills provided notice that the Company would be filing a rate request at the beginning of February 2025. Black Hills planned to file with a test period of September 30, 2024, and stated its intent to request a projected test period through close of September 30, 2025. The projected test period was requested to capture additional capital investments and were of particular importance to Black Hills. In addition, Black Hills discussed the possible process of providing Staff with supplemental responses to discovery request to aid in supporting its rate base position and asked for feedback from Staff.

During this initial conversation, Staff reiterated that its process relies on known and measurable data and updates to the most recent month available within the procedural timeframe for a Commission Order for a rate case is 240-day. The primary problem with accepting a projected test period is due to the procedural rate case process in Kansas, and the fact that rates must be set based on known and measurable data, inclusive of plant investment that is used and useful for the provision of utility service for Kansas customers.

From a procedural process standpoint, Staff has limited options to update the record past its direct testimony. While other states like Missouri have a surrebuttal process, Staff only gets one opportunity to evaluate a utility's Application and present direct testimony while the Company can file rebuttal testimony prior to proceeding to settlement or to litigation and a hearing. Outside of a hearing room, Staff does not have a second opportunity to put evidence on the record.

When it came to a procedural schedule, Staff was aware that the filing timeline would be concurrent with Evergy Central's rate case and requested that the parties have a follow-up meeting with CURB to discuss these issues.

Q. Please discuss the meeting Staff had with Black Hills and CURB regarding its requested abbreviated Rate filing.

Prior to the meeting, Staff held internal discussions on how to manage two competing rate case to discuss alternative procedural schedules with Black Hills and CURB. Staff met on January 10, 2025, to discuss the procedural timeline of the filing and discuss Black Hills' intention of filing a projected revenue requirement.

Staff requested feedback from Black Hills and CURB on the possibility of shortening the normal procedural schedule by 30-days, allowing for Staff to request updates to its update period through February 28, 2025. This would allow for more time in between the two rate case filings for the rate case audit, preparation of rate case testimony, settlement discussions, and hearing proceedings.

By moving forward the procedural schedule by 30-days, Black Hills would forgo an additional month to incorporate updated plant in service, based on Staff's normal processes. After discussing the complexities of managing concurrent procedural schedules, Black Hills and CURB agreed to file a Joint Motion for a Procedural Schedule.

Black Hills wanted to hear feedback from Staff and CURB on its proposal to project forward its test period through September 30, 2025. Staff reiterated its concerns with accepting a projected test period and proposed an alternative to Black Hills of submitting a request for an abbreviated rate case filing, that would be limited to updating plant in service.

Q. What advantages would Black Hills' request for an abbreviated rate filing over a projected cost of service?

A. The process would allow Staff to retain its current methodology for updating rate base and cost of service in the current docket. Staff can audit proposed rate base and cost of service adjustments to confirm the legitimacy of the cost impact on Black Hills' operations. With an abbreviated rate filing, Staff could reflect CWIP that would be anticipated to be complete within one year of the filed test period. CWIP receives a return on CWIP project investment that Black Hills has already employed to provide services to customers.

CWIP is governed under K.S.A. 66-128. This statute allows Staff to include CWIP that was ***commenced*** and ***completed*** within one year of the test period in its rate base calculation and included in the return provided to Black Hills.[32] The abbreviated rate case would allow Staff to confirm the balance of CWIP that was complete as of September 30, 2025, and true-up deviations in project costs or remove projects that remain outstanding or were discontinued by Black Hills.

The abbreviated rate filing could incorporate Black Hills actual plant in service through an update period and adjust rates accordingly. The process would lessen Black Hills regulatory lag for the capital investment, while retaining the format and audit process as a GSRS filing.

[32] See the Testimony of Daniel Buller for a discussion of Staff's adjustments for Construction Work in Progress, Plant in Service, Accumulated Depreciation, and depreciation in the rate case.

Q. Did the parties come to an Agreement on Black Hills' use of projections in the cost of service?

A. In meeting with Staff and CURB, Black Hills confirmed that its revenue requirement study and rate base projections were already complete, so no agreement could be reached between the parties. Black Hills indicated that it would prepare testimony that indicated the parameters of the abbreviated rate case filing would take precedence over the Company's treatment of plant in service in the cost study.

Q. Does Staff support Black Hills' request for an abbreviated rate case, as filed by the Company?

A. Staff does not support Black Hills' rate request as filed; however, Staff does support a modified proposal (contained in the following section) that would include an abbreviated rate filing.

Black Hills' request in this docket includes the Commission acceptance of a projected rate period and an abbreviated rate case filing to true-up the projected plant in service. Black Hills also requests to include its actual plant, accumulated depreciation, ADIT, and depreciation expenses through December 31, 2025.

The three primary concerns Staff has with accepting a projected test period and true-up proceeding relates to constraint in Staff resources and time to audit the filing, the potential that this type of mechanism would be expected by other utilities filing rate applications, and the time and costs needed for other parties to intervene and review the plant investments in an abbreviated rate case.

With Black Hills' approach, the Commission would have to accept that the projected investment would be fully "completed" and "placed into service" for the benefit of serving customers. The abbreviated case would then, correct or true-up plant in service, accumulated depreciation, ADIT, and depreciation expense and CWIP balance to September 30, 2025.

This process would be a significant departure from the Commission's current process of utilizing "known and measurable" plant in service data, synchronizing it with Staff updates to the cost of service in the update period. In the abbreviated filing, Staff would then perform an audit for both the true-up of plant and CWIP through September 30, 2025, and review additional plant investment put into service by December 31, 2025.

If the process establishes a Commission precedent, an abbreviated rate case would become the new "normal" and Staff would need to dedicate resources to the review of an abbreviated filing rather than contributing resources to the review of other utility rate reviews. Intervening parties that are present for settlement in a rate case do not regularly intervene in abbreviated rate filings.

Q. Please describe Staff's methodology for updating plant-in-service and its proposed methodology for a modified version of Black Hills requested abbreviated rate case.

A. Staff retained its normal processes for updating plant in service, accumulated depreciation, depreciation expense, and ADIT with known and measurable data through February 28, 2025. Staff choose to include projects in the construction work in progress balance for projects that are projected to be in service by September 30, 2025, which totaled $3,471,949 in this filing. Staff's adjustment for CWIP complies with K.S.A. 66-128, as all CWIP projects were commenced by Black Hills prior to the start of the test-year and are expected to be complete and in-service by September 30, 2025, or one year from the start of the test period in this Docket.

In natural gas rate cases, Staff has updated plant in service through a cut off period; however, Staff has not included recovery of the balance remaining for CWIP projects, as Staff is unable to verify if the projects will be placed in service in accordance with the statute. There have been instances where a utility will present evidence in rebuttal for projects that have been placed into service following Staff 's update period. In those cases, Staff adjusts its settlement schedules to include the completed projects. Under Staff's proposed methodology for the abbreviated rate case, the CWIP balance will be trued-up for projects that have gone into service by September 30, 2025, in accordance with the statute.

Other than the true-up adjustment of its CWIP, Staff retained its normal procedures in the calculation of its revenue requirement in this Docket. As it relates to Staff's modifications of the abbreviated rate filing, Staff would seek to only "true-up" the CWIP balance through September 30, 2025. In addition, Staff would support Black Hills' request to update its plant in service, accumulated depreciation, ADIT, and depreciation expense through December 31, 2025.

Q. Please describe the specific elements Staff is modifying in its proposed abbreviated rate case filing.

A. There are two differentiating factors in Staff's proposal: 1) Staff retains its existing methodology for plant in service, accumulated depreciation, ADIT, and depreciation expense for the calculation of the revenue requirement in this Docket, 2) Staff removes the true-up of plant in service and related items from the abbreviated rate case.

By removing the projected revenue requirement and relying on actuals in this Docket, there is no need to true-up plant in service items in the abbreviated rate filing.

Staff's proposal is that Black Hills' abbreviated rate filing be treated similar to an "expanded" Gas Safety and Reliability Surcharge that examines Black Hills' actual plant in service, accumulated depreciation, ADIT, and depreciation expense, at the close of Black Hills' fiscal year and included in rates as a single adjustment.

Q. Please describe the advantages of Staff's proposal to the abbreviated rate case.

A. First, Staff's proposal is more streamlined and administratively efficient. Staff is used to conducting audits for GSRS surcharges, which usually is supported by one auditor to review Black Hills' investments. Staff will not have to go back and determine the appropriate balances of the plant adjustments and either charge/refund customers for the difference between Black Hills' current projections and actual plant in service balances. Staff will only need to audit Black Hills' actual plant in service balances, as of December 30, 2025, which will greatly reduce the audit time and cost to customers.

Second, Staff methodology is very similar to its existing GSRS filing with an expanded scope to include Black Hills' growth-related investments. Based on Staff's analysis, Black Hills GSRS eligible investment accounts for roughly two-thirds of its capital investments. Black Hills' GSRS filings have included roughly $15 million in plant in service investment in recent periods, while the difference in Staff's plant-in-service updates included a reduction of $20.1 M from Black Hills' projected plant-in-service through September 30, 2025.

One of the advantages of implementing a plant-in-service true-up is to lessen the customer impact of a secondary adjustment to rates; however, the results would have yielded a more significant rate increase in this proceeding while relying on the True-up to recover deviations between Black Hills' projected plant-in-service and actual plant balances through September 30, 2025. In addition to calculating the true-up, Black Hills' proposal included the secondary objective of updating plant-in-service items through December 30, 2025, in the abbreviated rate filing.

Q. Please summarize Staff's primary reasons for supporting an abbreviated filing in this Docket and address the customer impact of the abbreviated filing.

A. Black Hills held a meeting with Staff to discuss its objectives of filing a projected revenue requirement and relaying its intentions to provide continual updates to these projected balances through discovery. This process was untenable with the current regulatory process contained within the Commission's standard procedural schedules. Additionally, an abbreviated rate case has the benefit of allowing Staff to verify that all CWIP included in this rate case will be in service by September 30, 2025. Additionally, an abbreviated rate case will allow Black Hills an opportunity to earn a return on and a return of its actual capital investment that is in service as of December 31, 2025, which will also produce the benefit of nine-months of delay for the next Black Hills GSRS filing. Lastly, Black Hills is anticipating significant investment in its natural gas distribution system over the next six months.

Through March 31, 2025, Black Hills' capital project investment in its Kansas distribution system totaled $5,892,622, with anticipated investments of $20.1 million of projected investment through September 30, 2025. Staff performed an impact analysis of the projected investment in Staff's schedules related to Black Hills' projections to plant in service, accumulated depreciation, ADIT and depreciation expense, which yielded an increase in Staff's revenue requirement of approximately $1.85 M. Staff would note that its methodology relies on Black Hills' projected investment through September 30, 2025.[33]

C. Staff's Modification for an Abbreviated Rate Request and Recommendation

Q. Please summarize Staff's recommendation related to Black Hills' request to file an Abbreviated rate case filing.

A. As currently constructed, Staff does not support Black Hills' use of projections in its revenue requirement study or its outlined methodology for its proposed abbreviated rate case filing. Staff recommends the Commission approve its modified version of Black Hills abbreviated rate filing that includes a true-up of the CWIP balance included in Staff's revenue requirement through September 30, 2025, and incorporates Black Hills' plant in service, accumulated depreciation, ADIT, and depreciation expense through December 31, 2025.

V. Analysis of Black Hills' Request for Alternative Ratemaking Mechanisms & Transportation Rate Revisions for Non-Telemetered Daily Balancing Service Charge

A. Review of Alternative Ratemaking Mechanisms

Q. Please describe the general purpose of alternative ratemaking mechanisms and the benefits of these mechanisms to Black Hills' and its ratepayers.

A. While the purpose of alternative ratemaking mechanisms can vary significantly in terms of the scope and approach to recover utility capital investment or incremental costs of

[33] Staff adjustment does not calculate or provide an estimate of the cost impacts of Black Hills' abbreviated rate case filing. Staff adjustment accounts for Black Hills' projections of plant in service, accumulated depreciation, ADIT, and depreciation expense through September 30, 2025, which is likely a conservative estimate for the impacts of incorporating these plant adjustments through December 31, 2025.

providing service to customers, these mechanisms are designed to streamline the regulatory commission's process of adjusting utilities' rates outside of the traditional requirement of filing rate case applications. Rate cases require a significant commitment of resources by the utility, the staff of regulatory commissions, and the stakeholder groups involved in the ratemaking process. Alternative ratemaking mechanisms may be implemented on a standalone basis or in combination with the traditional ratemaking processes. These mechanism are designed to reduce the costs of the ratemaking process through an agreed upon standard of review for a utility's incremental costs or capital investment. These mechanisms also shorten the recovery time or regulatory lag that utilities experience in recovering the capital investment necessary to serve customers.

Alternative ratemaking mechanisms are generally viewed as a positive outcome by the investment community and utility shareholders, and the effect on utility ratepayers can have both positive and negative impacts to customers between rate cases. The primary negative impacts that customers experience are the more frequent rate adjustments for utility services. However, alternative ratemaking mechanisms often provide benefits to customers through smaller incremental rate adjustments for utility infrastructure investment, which can result in a more reliable and safe gas system.

Staff has traditionally been receptive to alternative ratemaking approaches that are narrow in scope and provide some level of customer protections. Staff's support for these structures for infrastructure investment has resulted in recent updates to Kansas Statutes, like the GSRS Statute. Other rate mechanisms approved by the KCC, such as the Purchase Gas Adjustment, or surcharges identified in statute, like the Ad Valorem

Tax Surcharge,[34] operate as a pass-through to make certain that both the customer and the company only pays for the actual gas costs or property taxes that utilities incur in providing service to customers.

Q. Please provide an example of a targeted ratemaking mechanism available to Black Hills.

A. As an example, the GSRS approved by the Kansas Legislature allows Black Hills and other gas utilities to recoup certain capital investment in upgrades to aging existing pipeline infrastructure. The Kansas Statute K.S.A. 66-2201 - 2204[35] (GSRS Statute) includes a monthly residential cap of $0.80 per residential customer for the incremental investment and recovery of Gas Safety and Reliability infrastructure. The current GSRS Statute was revised during the 2018 Legislative session with the modifications becoming effective on January 1, 2019. The Statute modification increased the monthly rate cap for residential customers from $0.40 per month to $0.80 per month for the initial GSRS filing or from the most recent Commission-approved GSRS filing. The GSRS Statute allows for the Commission's review of eligible pipeline infrastructure projects, resulting in a new GSRS rate for project investment that were placed in service in the most recent rate period.[36]

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[34] *See* K.S.A. Statute 66-117f.

[35] *See* K.S.A. 66-2201 – 2204 for a complete review of the GSRS Statute. Following KGS's last rate case in the18-560 Docket, KGS has filed an annual GSRS filing towards the end of August. Staff performs an annual audit of the capital project investment to determine whether the projects eligible for recovery under the GSRS Statute.

[36] *See* K.S.A. 66-2202 (f) - (1) – (5) for a breakout of natural gas utility plant projects that qualify for recovery under the GSRS Statute. At a high level, Eligible projects consist of: (1) projects to replace, upgrade or modernize obsolete facilities related to comply with federal and state regulatory standards; (2) projects that extend the useful life or integrity of existing pipeline components; (3) projects that relocate existing infrastructure due to construction or improvement of Kansas highway and road ways; (4) projects that enhance the security of the pipeline system, including allocated corporate costs; and (5) project investment made in response to the utilities safety or risk management assessments. As of January 1, 2019, the Kansas Legislature expanded the scope of eligible projects included in the GSRS to include the five project categories listed above.

The GSRS surcharge reduces regulatory lag experienced by Black Hills for pipeline infrastructure modernization, while at the same time, customers benefit from improved reliability, safety of the pipeline infrastructure, and smaller incremental increases.

Q. Outside of the GSRS, does Black Hills have any other approved ratemaking plans that target pipeline infrastructure replacement?

A. Black Hills' has an approved Accelerated Pipeline Replacement Program (ARP), as discussed in detail in the Testimony of Marc T. Eyre.[37] The ARP was initiated in 2018, as a twenty-five-year plan for Black Hills to replace and eliminate all bare steel mains, bare steel service lines, and bare steel yard lines in Class 3 or urban locations by 2043 in the state of Kansas. In total this represents 146 miles of bare steel main lines and 28,942 bare steel service and yard lines in Class 3 or urban areas.

As stated in Mr. Eyre testimony, Black Hills continues to make meaningful progress as reflected in the annual updates that have been provided to the Commission. From 2018 through December 31, 2023, Black Hills had replaced 85.7 miles of bare steel main with 60.3 miles remaining to be replaced; 15,508 bare steel service lines and yard lines with 13,434 remaining to be replaced.

Black Hills utilizes a highest risk prioritization model to determine which projects to prioritize in the construction season. The model considers leak history, type of material, class location, potential risks, and other factors.

[37] *See* Direct Testimony of Marc T. Eyre, pp. 30 – 32.

Q. Please discuss Staff's reasoning for supporting targeted alternative ratemaking mechanisms.

A. Staff supports the use of targeted alternative ratemaking mechanisms when there is a demonstrable need for that mechanism, such as when the item being afforded the alternative ratemaking treatment is difficult to handle with traditional ratemaking methods like a rate case. This is usually the case with expense items that are material, recurring, volatile, and outside of the control of utility management. The existing alternative ratemaking structures that Staff has supported in prior utility filings for Black Hills and other gas utilities served a narrow ratemaking purpose.

For example, both Black Hills' Purchased Gas Adjustment (PGA) and Ad Valorem Tax Surcharge directly pass on the costs to customers and are intended to capture the actual operational costs, as a flow-through to customers without any added incremental margin. Staff has recommended trackers for cyber security and pensions and post-retirement benefits that allow utilities to track their incremental expenses in between rate cases above an established base line and defers the cost recovery into a regulatory asset or liability. These regulatory asset or liability balances are reviewed in subsequent rate cases and amortized over a selected amortization period to recover or return funds to customers.

Q. Please give an overview of the general purpose of the Purchase Gas Adjustment.

A. The Purchase Gas Adjustment captures the actual cost of natural gas, which is a volatile commodity impacted by the demand for natural gas as a heating source for distribution gas utilities and a fuel source for the generation of electricity. The PGA surcharge allows customers to pay the actual cost of gas without any mark-up for margin, allowing utility customers the benefit of low market prices in the current gas market.

Black Hills' and its customers also experienced significantly higher market prices for natural gas during Black Hills' operation in Winter Storm Uri, with the cost of gas remaining elevated in the subsequent years following the winter weather event. The cost of natural gas Black Hills incurred to provide service for Winter Storm Uri were deferred for recovery in Black Hills Docket No. 21-BHCG-334-GIG. The total Winter Storm Uri purchase gas costs included $87.9 M, which were approved for recovery as a separate line-item surcharge by the Commission over a 5-year period, beginning February 1, 2022, and ending, January 31, 2027.[38] While the rate is volumetric, the average residential customer impact for Winter Storm Uri was $11.47 per month.[39]

Staff would note that the cost of natural gas contained in the Purchase Gas Adjustment from 2021 into the first quarter of 2023 remained higher than historical operating periods with First of the Month(FOM) contract price for delivery on Southern Star Pipeline averaging $5.07 over that period.[40] Following the first quarter of 2023 through May of 2025, Southern Star's FOM contract price for gas deliveries averaged $2.38.[41]

[38] *See* Commission Order Approving Unanimous Settlement Agreement, p.4.
[39] *See Id.*
[40] *See* Southern Star's FOM contract pricing tables and charts below.
[41] *See Id.*

Q. Please provide a comparison of the cost of natural gas to serve Kansas customers and discuss the purpose of providing the data as it relates to alternative ratemaking mechanisms.

A. Staff receives a monthly update on FOM price contracts for delivery on various interstate pipelines and other gas marketplaces in the Inside FERC Gas Report. This report acts as a general data source for natural gas pipelines that serve Kansas electric and natural gas distribution utilities. Staff pulled the data for FOM pricing contracts for delivery on the Southern Star delivery hubs from the Inside FERC Gas Report from 2021 through 2025.

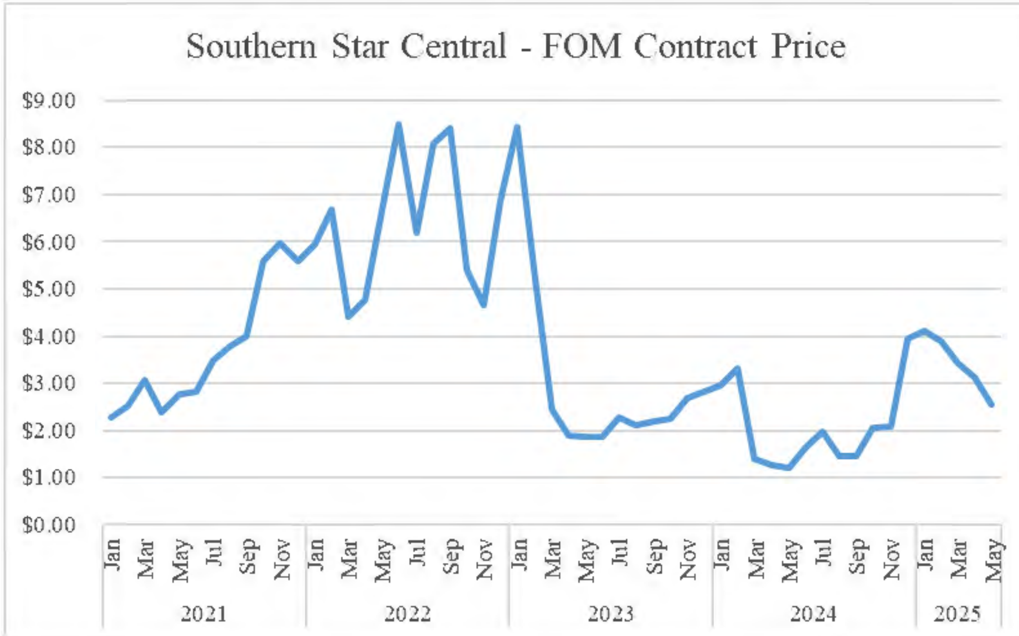
Southern Star's Hub prices for FOM delivery provides a relevant data source for the costs of gas that are passed through to Kansas customers through Black Hills' PGA mechanism. In the following table, Staff summarizes the yearly FOM contract pricing, with the average market price, high market price, and low market price for delivery on the Southern Star Gas Pipeline from 2021 – 2025.

Southern Star Central
First of the Month (FOM) - Contract Price

Year	Location	AVG	HIGH	LOW
2021	SSC - TX, OK, KS	$3.687	$5.960	$2.280
2022	SSC - TX, OK, KS	$6.382	$8.500	$4.410
2023	SSC - TX, OK, KS	$3.003	$8.430	$1.870
2024	SSC - TX, OK, KS	$2.065	$3.960	$1.210
2025	SSC - TX, OK, KS	$3.416	$4.120	$2.540

* FOM Contract Pricing for 2025 was available from Jan - May.
Source:
Inside FERC Gas Market Report - First of the Month - Contract Price

The following graph illustrates the volatility of the monthly FOM contract pricing for delivery on Southern Star's pipeline from January of 2021 through May of 2025.



While Black Hills provides gas service by utilizing access to multiple interstate pipelines, Southern Star FOM contract pricing is a relevant data point that Staff could pull from an independent source that impacts the cost of gas that flows through Black Hills' Purchase Gas Adjustment. The two primary items that Staff would highlight from the data set are the volatility of natural gas and the cyclical nature of its seasonal pricing based on gas usage. As displayed in the chart, natural gas pricing tends to peak for each rate period sometime during the Winter Season from November through February.

Given these facts, an alternative ratemaking mechanism, such as the Purchase Gas Adjustment, is likely the most efficient and cost-effective approach that the Commission could employ to make the Company and the customers whole for the price of natural gas used in providing service to Black Hills' customers. As such, the Commission approved this alternative ratemaking mechanism for use by Black Hills and other gas utilities in the State. The PGA mechanism provides administrative benefits and acts as a direct pass-through mechanism for the cost of gas; and therefore, the cost of gas component is removed from the traditional ratemaking process for Black Hills' plant investment and operational costs, which are evaluated and captured by Black Hills through a rate case Application.

B. Black Hills' Request to Renew Alternative Ratemaking Mechanisms

Q. Does Black Hills' request renewal of alternative ratemaking mechanisms?

A. Yes. Per K.S.A. 66-2203, a natural gas utility must file a general rate proceeding with the last 60 months to remain eligible for the GSRS surcharge. As noted in Mr. Daniel's Testimony, Black Hills' Rate Application extends the Commission's ability to approve the Company's future GSRS filings and effectively resets the timeframe for eligible GSRS filings.[42] The GSRS mechanism allows Black Hills to adjust rates between general rate cases, supporting ongoing system integrity and reliability investments critical to the ARP's progression. These GSRS-eligible projects are necessary for Black Hills to safely and reliably provide natural gas service to the Company's customers.

Q. Does Staff support Black Hills' request for Commission approval for the continued use of its GSRS Rider to update infrastructure for system integrity and reliability investments?

A. Yes, Staff supports the continuation of the GSRS surcharge, which provides value to customers in maintaining a safe and reliable system and extending the time periods between rate case filings. GSRS filings provide significant cost savings to Black Hills' Kansas customers because the administrative costs for Black Hills, CURB, and Staff to audit and review the filings is significantly less than the administrative cost to review a rate case filing. The GSRS Rider lessens the regulatory lag for plant investment to Black

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[42] *See* Direct Testimony of Rob Daniel

Hills for the capital expended on pipeline replacement and maintenance of its distribution system, with projects that are placed into service and providing benefits to its Kansas customers. The customer impact of the GSRS Rider results in smaller incremental adjustments to Black Hills' cost of service.

As previously discussed in my testimony, Black Hills monthly surcharge may not increase by more than $0.80 per residential customer over the most recent GSRS filing. Staff's gross revenue requirement of $13.6 million, includes the rebasing of GSRS related revenues

For the reasons described above, Staff supports Black Hills' request to continue its use of the GSRS Rider to recover its eligible capital project investments.

Q. Are there any other Commission-approved alternative ratemaking mechanisms Black Hills is requesting for continuation?

A. Yes, Black Hills' is requesting the continuation of the Ad Valorem surcharge tracker[43] and the Pension and Retiree Healthcare Trackers.[44] Staff witness, Katie Figgs addresses the base level of Ad Valorem tax expense of $7.8 M included in Staff's revenue requirement in her Direct Testimony. The Direct Testimony of Bill Baldry addresses the base level of costs included in the Pension and Retirees Trackers.[45] Mr. Baldry recommends that the annual baseline in the cost of service for Tracker 1 purposes is: Pension Plan expense of $262,612 and OPEB expenses of $167,600.[46]

Staff recommends Commission approval for the continuation of the Ad Valorem Surcharge tracker and the Pension and Retiree Healthcare Trackers.

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[43] *See* Direct Testimony of Nick W. Smith, p. 13.
[44] *See* Direct Testimony of Samantha K. Johnson p. 55.
[45] *See* Direct Testimony of Bill Baldry p. 10.
[46] *See Id,Exhibit No. WEB IS-4*.

C. Black Hills' Request for Approval of Deferred Accounting Tracker for Insurance Expense.

Q. Has Black Hills requested authority for an additional alternative ratemaking mechanism or tracker in this Docket?

A. Yes, Black Hills has requested Commission approval for a deferred accounting tracker for insurance expense. Black Hills argues that insurance expenses have been highly variable year-over-year, unpredictable, and are outside management control. As detailed in the Testimony of Samantha Johson, Black Hills has experienced extraordinary increase in insurance premiums, primarily for excess liability insurance.[47]

Similar to pension and post-retirement benefits or property tax expense, insurance is a necessary cost of service item. Insurance is needed for the mitigation of risks both to the Company and its customers for continued safe and reliable service. The tracker ensures customers pay no more or no less than the assessed insurance expense. These costs have become material to Black Hills, more than doubling from $545,975 in 2021 to $1,097,733 in 2024.

Q. Does Black Hills provide any analysis for the dramatic increase in excess liability premiums?

A. Yes, Black Hills discusses that utility-involved losses have resulted in claims that are estimated to be in the billions of dollars in the last several years. Consequently, insurers who have historically provided excess liability coverage for losses have either declined to provide coverage, reduced the levels of coverage they are offering to the market, or –

[47] *See* Direct Testimony of Samantha Johnson, pp. 57 - 59.

if willing to continue to provide some level of coverage – have significantly increased the premium charged for the coverage.

In this instance, the increase in the insurance premiums for the July 1, 2024, through June 30, 2025, policy term is known and measurable and the Company has updated the amount of insurance expense to the actual amounts in its base rate proposal.

Q. Did Staff retain Black Hills' proposed adjustment to insurance expense in its revenue requirement calculation?

A. Yes, Staff retained Black Hills' baseline insurance costs of $1,128,696 included in its revenue requirement calculation.

Q. Did Black Hills perform a historical analysis of Black Hills' insurance expense?

A. Yes, Black Hills' provided a 7-year historical analysis of Black Hills' insurance expense. Staff has incorporated Black Hills' analysis into the following table detailing the growth in Black Hills' insurance expenses.

Black Hills - Kansas Gas
Insurance Expense

Year	Amount	YOY Change	YOY %
2018	$ 420,988		
2019	$ 437,037	$ 16,049	3.8%
2020	$ 471,140	$ 34,103	7.8%
2021	$ 545,975	$ 74,835	15.9%
2022	$ 632,771	$ 86,796	15.9%
2023	$ 741,058	$ 108,287	17.1%
2024	$ 1,097,733	$ 356,675	48.1%
2018 - 2024		$ 676,745	160.8%

Source:
Testimony of Samantha K. Johnson, Table SKJ-6

Q. Please discuss Staff's review of the primary factors that are driving Black Hills' insurance costs?

A. In response to KCC Data Request No. 181: Cost Diver's for insurance expense, Black Hills discusses that the primary cost driver has resulted from excess liability insurance expense, which resulted in a 150% increase in its premium expense that was renewed on July 1, 2024. Black Hills' reiterated that insurers who have historically provided excess liability coverage for losses have either declined coverage, reduced the level of coverage or have significantly increased the premium charges for this type of coverage.

Insurers have been hit by a number of factors in recent years. Staff has attended a number of webinars that have discussed in detail the growing impact of wildfires on utility insurance. While Black Hills and other regional utilities have not been impacted by these events, insurance companies and actuaries are beginning to price in higher risks of serving utilities due to the increases in environmental factors that have led to large liability claims for insurance companies.

Utility companies can face massive legal liabilities if their equipment is found to have sparked a wildfire. High-profile cases, such as the lawsuits faced by Pacific Gas & Electric (PG&E) in California, underscore the potentially crippling financial consequences. These liabilities can run into billions of dollars, further driving up insurance costs and affecting the financial stability of utility companies.

Q. Has Black Hills taken steps to address its insurance costs?

A. Yes. In 2015, Black Hills engaged Energy Insurance Services (EIS), a licensed captive insurance company in the state of South Carolina and captive administrator for the utility industry. Black Hills entered into a Participation Agreement with EIS establishing a protected cell captive.[48]

[48] *See* Black Hills' public response to KCC Data Request No. 126: Captive Insurance Company.

On January 1, 2016, Black Hills secured its first captive policy with EIS for an entity named Black Hills Power. This policy covers strict liability provisions associated with transmission lines owned by Black Hills Power.

Black Hills has added two additional policies providing General Liability coverage within different layers of Black Hills excess liability tower. Premiums for one of these policies are allocated to Black Hills Kansas Gas Utility Company, LLC. Black Hills is charged a management fee from EIS for its services.

Q. Did Staff find any other factors that resulted in increases to Black Hills' insurance expense in the test period?

A. Yes. In Black Hills' response to KCC Data Request No. 181, Black Hills explains,

> Workers compensation insurance expense resulted in higher test year expenses. Black Hills carries a $500,000 workers compensation claim deductible whereby our insurance carrier handles and pays claim expenses up to the deductible amount.

Workers' compensation insurance expenses totaled $219, 967 through the close of the calendar year of 2024. Other contributing factors included higher auto insurance expense and increases to property and casualty insurance. Officer liability was the only Black Hills' insurance related expense that remained stable when comparing 2023 and 2024 fiscal periods.

Q. Did Staff request Black Hills provide any additional data in its analysis of insurance expense?

A. Yes. In KCC Data Request No. Black Hills provided a detailed breakout of insurance related costs from 2016 – 2020. Staff incorporated Black Hills' response to KCC Data Request No. 187 in the table on the following page. Staff would note that Black Hills' insurance expense showed significant variance between the rate periods, with a high in insurance expense of $948,547 in 2016 and a low of $233,485 experienced in 2018.[49]

Black Hills Kansas Gas					
Insurance Exp. Categories	**2016**	**2017**	**2018**	**2019**	**2020**
Property/Casualty	$ 5,316	$ 4,681	$ 4,794	$ 7,304	$ 8,722
Officer Liability	82,535	68,730	59,074	59,724	66,014
General Liability	20,465	45,290	27,097	17,652	20,282
Auto	25,840	26,727	21,079	20,277	60,976
Workers Compensation	454,202	224,133	(219,736)	121,100	(30,401)
Other	360,188	340,352	341,178	353,078	372,334
Totals	**$ 948,547**	**$ 709,914**	**$ 233,485**	**$ 579,135**	**$ 497,928**

Source:Black Hills' response to KCC Data Request No. 187.

Q. Does Staff support Black Hills' request for deferred accounting treatment in this Docket?

A. Based on the analysis presented by Black Hills, Staff is supportive of Black Hills request for deferred accounting treatment for insurance expense via a tracker. Staff would recommend the Commission approve Black Hills baseline insurance $1,128,696 included in its revenue requirement calculation. While Staff supports the deferral in this docket, Staff believes that Black Hills needs to adequately support the cost recovery of the deferred balance and demonstrate that it continues to actively manage insurance costs to the benefit of its ratepayers.

One of the primary factors that Staff considered in supporting the deferred accounting treatment resulted in the variability of Black Hills' insurance expense and recent rises in excess liability insurance. The insurance market has been impacted by the rise in material and labor expenses for the replacement of damages that has resulted from the current inflationary environment.

[49] Staff would note that insurance related costs in 2018 included a credit of $219,736 for workers compensation.

At this time, Staff is uncertain whether the current volatility in insurance expense will continue to impact Black Hills to the degree demonstrated or whether the current insurance market will plateau and begin to stabilize in the near-term. Black Hills historical insurance costs have showed declines in insurance expenses from 2016 through 2020. If Staff established a baseline at Black Hills insurance expense in 2016; Black Hills would have recorded a deferred regulatory liability that would have been refunded to customers in a future filing. Thus, an insurance tracker would ensure customers pay no more or no less than the assessed insurance expense.

For the reasons listed above, Staff supports Black Hills request for deferred accounting treatment for insurance expenses and requests the Commission approve a baseline insurance cost of $1,128,696 for the insurance tracker. Staff recommends a provision to sunset of the insurance tracker at the time of the next rate case and require Black Hills to support the cost recovery of the deferred balance in its rate case filing.

D. Black Hills' Request to Revise its Transportation Rate for Non-Telemetered Daily Balancing Service Charge

Q. Please provide an overview of Black Hills' current Non-Telemetered Daily Balancing Service Charge.

A. A review of Black Hills' Non-Telemetered Daily Balancing Service Charge (Non-Telemetered Balancing Charge) is contained in the Testimony of Samuel B. Tobin.[50] The current Non-Telemetered Balancing Charge is $0.009 per Therm that applies to all activity in the non-telemetered Aggregated Daily Pools.[51] Non-telemetered pools are

[50] *See* Direct Testimony of Samuel B. Tobin, pp. 9 – 11.
[51] *See* Black Hills Tarff (Index No. 37 Tariff Sheet Nos. 1 – 3.

pools without telemetry that do not have access to daily measurements for their delivered quantities and only receive monthly measurements when meter readings are available.

Mr. Tobin describes Black Hills' challenges with Non-Telemetered Aggregated Delivery Pools (NT Aggregated Delivery Pools), which provide a distinct challenge to the Company in the balancing of daily usage with a lack of transparency due to the absence of telemetry data. The Non-Telemetered Balancing Charge is meant to protect the system's sales customers against gas costs associated with the daily system management, through crediting charges to the Purchase Gas Adjustment for the cost to manage the daily imbalances activity of the monthly managed delivery pool.

The disparity that Non-Telemetered Balancing Charge is meant to address is the inherent benefit that Non-telemetered Aggregated Delivery Pools have in avoiding the daily gas price exposure. The advantage of NT Aggregated Delivery pools is that they allow the pool to purchase FOM gas at inside FERC gas commodity pricing and avoid the intramonth daily gas purchases at Gas daily commodity pricing or managing unnecessary positive imbalances with upstream pipeline services or gas sales.

Q. What is the intended purpose of Black Hills' Non-Telemetered Balancing Charge?

A. The intended purpose of the Non-Telemetered Balancing Charge is meant to contribute to the potential cost to the retail sales customers of Black Hills for the balancing of transportation-customer activity and protecting sales customers from being exposed to unnecessary gas costs associated with daily system management resulting from the NT Aggregated Delivery pools.

Q. Please describe the requested change in the Non-Telemetered Balancing Charge and describe how Black Hills calculated its proposed increase to the Non-Telemetered Balancing Charge.

A. Black Hills is requesting to increase the Non-telemetered Balancing Charge from $0.009 per Therm to $0.015 per Therm. To determine the Non-Telemetered Daily Balancing Service Charge, Black Hills' examined the historical pricing of natural gas commodity for the last three years, and then, used a simple average of the gas supply pricing to determine the absolute value of the daily difference between the FOM Inside FERC and Gas Daily prices. Black Hills then averaged those amounts to serve as a proxy for the $0.99 volumetric per unit rate for daily balancing costs, assuming the absolute value volumes required daily balancing.

Black Hill's then calculated an index of the absolute value differences between the average historical monthly and daily usage. Black Hills then averaged those amounts to estimate the portion of volumes that required balancing on a daily basis by 15%, which is meant to reflect +/- 15% daily to monthly usage (or variance in gas consumption) for a customer on a daily basis. Black Hills multiplied the $0.99 volumetric per unit daily balancing daily balancing costs by 15%, which yielded the Black Hills requested Non-Telemetered Daily Balancing Service Charge of $0.015 per Therm.

Black Hills acknowledges that it does not have knowledge of the actual daily quantity of gas consumed by the NT Aggregated Delivery Pools. Therefore, Black Hills estimated the load profiles of those customers through a proxy load profile observed for gas load flowing through the Town Border Station of Liberal connected to the

Company's gas distribution system. The TBS load profile had an average monthly to daily load profile ratio of approximately 15%.[52]

Q. Did Staff meet with Black Hills to discuss the Non-Telemetered Daily Balancing Service Charge?

A. Yes, Staff met with Black Hills in two meetings. The first meeting was broadly focused on Black Hills' tariff proposals that are addressed in the Direct Testimony of Paul Owings.

In the second meeting, Staff met with Black Hills' specifically to review its calculation methodology of the Non-Telemetered Daily Balancing Service Charge, which included Staff from the economic, engineering, and accounting sections of the KCC's utility division. Staff asked Black Hills' whether it had provided a similar calculation of the $0.009 per Therm rate. Black Hills did not find historical records of the procedural history and original methodology used to set the current Non-Telemetered Rate Balancing Service Charge of $0.009 per Therm

Black Hills walked through the calculation mechanics and discussed the increased volatility in natural gas prices. The primary reason for Black Hills' request was to price in the increased price volatility to balancing difference between the FOM and daily gas prices.

[52] *See* Direct Testimony of Samuel B. Tobin, KSG Direct Exhibit SBT-3.

Q. Do Non-Telemetered Aggregated Delivery Pools have other alternatives to incurring the Non-Telemetered Daily Balancing Service Charge of $0.015 per Therm?

A. Yes, Staff views the Non-Telemetered Daily Balancing Service Charge as an elective charge, as transportation customers can elect to take participate in a telemetered aggregation pools that includes daily measurement for their delivered quantities or participate in a non-telemetered aggregation pool. Under a Non-telemetered aggregation balancing service, transportation customers are paying an electable balancing servicing charge that allows the customer to manage its monthly gas through FOM purchases and only receive measurements monthly when meter readings are available.

There are benefits inherent to participating in a Non-telemetered Aggregator Delivery Pool, in which transportation customers avoid intramonth and daily gas commodity pricing when the customer is short on gas and upstream sales when the customer has excess gas on the system. This subjects transportation customers to substantially more risk to price volatility and marketer payments to manage daily gas activities.

Q. Does Staff recommend the Commission approve Black Hills' request to increase its Non-Telemetered Daily Balancing Service Charge?

A. Yes, Staff supports Black Hills' proposal to revise its Non-telemetered Daily Balancing Service Charge to $0.150 per Therm, as it accurately captures the pricing risk between the FOM Gas and Daily price volatility. The Non-telemetered Balancing Charge provides protection to sales customers against excess gas costs associated with the daily system management, through crediting charges to the Purchase Gas Adjustment for the cost to manage the daily imbalances activity of the monthly managed delivery pool.

E. Recommendations and Conclusions

Q. Please summarize your Recommendations and Conclusions.

A. I provided the following Recommendations to the Commission:

- I recommended the Commission adopt Staff's net revenue requirement increase of $9,184,235, which includes plant in service, accumulated depreciation, ADIT, and depreciation expense through February 28, 2025, and its CWIP balance projected to be placed into service by September 30, 2025.[53]
- Staff recommends the Commission reject Black Hills' initial proposal for an Abbreviated rate case as filed.
- Staff recommends the Commission approve its modified Abbreviated Rate Case filing, as described in my Testimony, including an update for Black Hill's plant in service, accumulated depreciation, ADIT, and depreciation expense through December 31, 2025, and a true-up of CWIP that was actually placed into service by September 30, 2025.
- Staff recommends renewal of Black Hills' existing alternative-ratemaking mechanisms, including the GSRS Rider, the Pension and OPEB trackers, the Ad Valorem Surcharge Rider.

[53] Staff revenue requirement study supports a gross revenue requirement increase of $13,561,650, which includes the rebasing of the GSRS of $4,377,415. Staff's revenue requirement supports a Weighted Average Cost of Capital of 6.94%; including Black Hills' actual cost of debt of 4.61%, as of February 28, 2025; a return on equity of 9.7%; and a capital structure of 54.25% debt and 45.76% equity. Staff filing would include a Pre-Tax ROR of 8.12%, applicable to the GSRS Carrying Charge.

- Staff recommends approval of Black Hills' request for deferred accounting treatment for insurance expense and establish a tracker baseline of $1,128,696. Staff recommends a provision to sunset the insurance tracker at the time of the next rate case and require Black Hills supports its request of the cost recovery of the deferred balance in its next rate case.
- Staff recommend the Commission adopt Black Hills request to increase its Non-telemetered Daily Balancing Service Charge to $0.150 per Therm.

Q. Does this conclude your testimony?

A. Yes.

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 30 day of April, 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 Direct Testimony was served via electronic service this 9th day of May, 2025, to the following:

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