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

In the Matter of the Application of Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy, for Approval of the Commission to Make Certain Changes in its Rates for Natural Gas Service	**)))))**	**Docket No. 25-BHCG-298-RTS**

REBUTTAL TESTIMONY OF ROBERT DANIEL

ON BEHALF OF

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

TABLE OF CONTENTS

EXHIBITS

KSG Rebuttal Exhibit RD-1	**Summary of Company's Unopposed Positions or Partially Opposed to Staff and CURB Recommendations**
KSG Rebuttal Exhibit RD-2	**Summary of Company's Opposed Positions to Staff and CURB Recommendations**
KSG Rebuttal Exhibit RD-3	**Calculation of Tax Adjustment Rider Rates**

List of Acronyms

ARAM	Average Rate Assumption Method
ADIT	Accumulated Deferred Income Taxes
BHC	Black Hills Corporation
BHSC	Black Hills Service Company
Black Hills OR "the Company"	Black Hills/Kansas Gas Utility Company, LLC d/b/a Black Hills Energy
COR-DDIT	Cost of Removal - Deferred Deficient Income Tax
CURB	Citizens Utility Ratepayers Board
CWIP	Construction Work In Progress
DIIP	Data Improvement Integrity Program
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
EDIT	Excess Deferred Income Taxes
EIC	Energy Insurance Services
GAAP	Generally Accepted Accounting Principles
GSRS	Gas System Reliability Surcharge
NGSH	Natural Gas Safe Harbor
O&M Expenses	Operations & Maintenance Expenses
OPEB	Other Post Employment Benefits
ROE	Return on Equity
TA Rider	Tax Adjustment Rider
WNA	Weather Normalization Adjustment

I. INTRODUCTION AND BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Robert Daniel and my business address is 655 East Millsap Road, Fayetteville, AR 72703.

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

A. I am employed by Black Hills Service Company, LLC. (“BHSC”). BHSC is a wholly owned subsidiary of Black Hills Corporation (“BHC”). I am the Director of Regulatory for Arkansas and Kansas.

Q. ARE YOU THE SAME ROBERT DANIEL WHO FILED DIRECT TESTIMONY IN THIS DOCKET?

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

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My Rebuttal Testimony addresses certain recommendations made by the Kansas Corporation Commission Staff (“Staff”) and the Citizens’ Utility Ratepayer Board (“CURB”) and the impact such recommendations would have on Company’s revenue deficiency. Additionally, my testimony addresses the following items:

- A Summary of Company Rebuttal Witnesses and Topics Addressed;
- The Company’s Abbreviated Rate Case Request;
- Deferred Accounting Insurance Tracker request;
- The Tax Adjustment Rider (“TA Rider”); and
- Accumulated Deferred Income Taxes (“ADIT”) and Excess Deferred Income Taxes

("EDIT") adjustments.

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

A. Yes. I am sponsoring the following exhibits:

- **KSG Rebuttal Exhibit RD-1**: Summary of the Company's Unopposed or Partially Opposed Positions to Staff and CURB Recommendations
- **KSG Rebuttal Exhibit RD-2**: Summary of Company's Opposed Positions to Staff and CURB Recommendations
- **KSG Rebuttal Exhibit RD-3:** Calculation of Tax Adjustment Rider Rates

II. COMPANY REBUTTAL WITNESSES

Q. PLEASE IDENTIFY THE COMPANY'S REBUTTAL WITNESSES AND SCOPE OF REBUTTAL TESTIMONY.

A. The following witnesses are filing Rebuttal Testimony:

1. Mr. Robert Daniel, Director of Regulatory

The purpose of my testimony is set forth above.

2. Mr. Marc T. Eyre, Vice President – Kansas Operations

Mr. Eyre supports the Company's overall need for a fair return to support ongoing investments in its Kansas gas system. Additionally, Mr. Eyre responds to Staff and CURB recommendations relating to the Data Improvement Integrity Program ("DIIP"), vegetation management, damage prevention, and other adjustments that impact the Kansas Gas business operations.

3. Ms. Samantha K. Johnson, Director of Regulatory

Ms. Johnson sponsors the Company's updated Rebuttal Revenue Requirement Study

("RRS") which incorporate certain Staff and CURB adjustment recommendations that are not being opposed in this case, necessary corrections to some of the revenue requirement adjustments, and overall support for the Company's requested increase in base rate revenues in Black Hills' Rebuttal filing.

4. Mr. Kris J. Pontious, Senior Compensation Manager

Mr. Pontious addresses Staff and CURB's recommendations for employee incentive compensation and benefit costs included in the revenue requirement.

5. Mr. Thomas D. Stevens, Vice President, Treasurer

Mr. Stevens supports the Company's requested capital structure and cost of debt. Mr. Stevens addresses the recommendations made by Staff and CURB regarding the Company's capital structure and cost of debt. Additionally, Mr. Stevens addresses recommendations made by Staff and CURB related to Other Post Employment Benefits ("OPEB") expenses, and Black Hills' pension trackers.

6. Mr. Ethan J. Fritel, Senior Regulatory Analyst

Mr. Fritel addresses recommendations made by Staff and CURB related to the Class Cost of Service and rate design, including customer and usage-based charges by customer class. Mr. Fritel also applies the adjustments proposed by Company witness Ms. Johnson in the Company's Rebuttal RRS to the Company's proposed rate design. Additionally, Mr. Fritel addresses the weather normalization adjustment ("WNA") recommendations and customer growth adjustment made by Staff. Mr. Fritel also addresses the proposed rate design of Kansas Municipal Gas Agency ("KMGA").

7. Mr. Nicholas W. Smith, Regulatory Manager

Mr. Smith's Rebuttal Testimony addresses certain expense and tariff adjustment recommendations made by the Staff and CURB, and the impact of these recommendations. Additionally, he addresses propane conversion cost recovery related to customers in the city of Burton and an adjustment to the Daily Scheduling Charges in the Company's tariff.

8. Mr. Adrien M. McKenzie, President - Financial Concepts and Applications

Mr. McKenzie addresses Staff and CURB's recommended return on equity and capital structure. Mr. McKenzie supports a reasonable return on equity and capital structure to allow the Company the opportunity to earn a fair return.

9. Mr. Samuel B. Tobin – Senior Manager of Commercial Services

Mr. Tobin responds to Staff and Intervenor party testimonies addressing the Company's changes and modifications to the transportation schedules within the Company's tariff.

III. OVERALL RECOMMENDATIONS

Q. HOW DOES THE COMPANY'S REQUEST COMPARE TO THE RECOMMENDATIONS MADE BY STAFF AND CURB?

A. As shown in Table 1 below, Staff recommended a base rate increase of approximately $13.6 million, with a net new revenue of approximately $9.2 million after accounting for Gas System Reliability Surcharge ("GSRS") revenue "rolling in" to base rates.[1] Staff's recommended base rate increase includes the refund of EDIT within base rates instead of through the Company's proposed TA Rider. CURB's recommended base rate increase is approximately $18.1 million. After accounting for the "roll in" of GSRS revenue, CURB's

[1] Figgs Direct at 9.

recommended new revenue increase is approximately $13.7 million.[2]

Table RD-1

Description		Company Application		KCC Staff		CURB
Pro Forma Rate Base	$	305,947,330	$	294,261,415	$	300,475,962
Rate of Return		7.63%		6.94%		7.11%
Required Operating Income	$	23,343,781	$	20,421,742	$	21,348,817
Adjusted Operating Income	$	9,749,657	$	9,710,930	$	10,601,774
Revenue Deficiency	$	13,594,124	$	10,710,812	$	10,747,043
Tax Gross Up Factor		1.26582		1.26582		1.27388
Revenue Deficiency	$	17,207,752	$	13,561,650	$	13,690,444
GSRS Impact*	$	-	$	(4,377,414)	$	-
New Revenue Increase	$	17,207,752	$	9,184,235	$	13,690,444

*The Company and CURB's deficiency calcuates the incremental new revenue, whereas Staff's deficiency calculates the total increase to base rates

Q. ARE THERE ADJUSTMENTS BY STAFF AND CURB THE COMPANY DOES NOT OPPOSE?

A. Yes. As described in the Rebuttal Testimony of Ms. Johnson, and shown on KSG Rebuttal Exhibit RD-1, Black Hills does not oppose many adjustments made by Staff and CURB. In my Rebuttal Exhibit KSG RD-2, I outline the adjustments the Company opposes.

Q. IS BLACK HILLS PROVIDING AN UPDATED REVENUE DEFICIENCY IN THIS CASE?

A. Yes. Based on the adjustments described in Ms. Johnson's Rebuttal Testimony, the Company's updated base rate revenue deficiency in this case is approximately $18.31 million. After considering the approximate $4.4 million in total GSRS revenues currently

[2] Schedule ALB-1.

being collected from customers through the *Pro Forma* period, the net incremental revenue increase and net impact to customers resulting from the Company's Rebuttal position is $13.9 million. This represents a $3.3 million reduction in Black Hills' revenue deficiency as compared to its application deficiency of $17.2 million. The Company is providing this updated revenue deficiency to include all accepted adjustments, updates, and minor corrections as shown in Table 2 below.

Table RD-2

Description		Company Application		Company Rebuttal
Pro Forma Rate Base		$305,947,330		$294,824,431
Rate of Return		7.63%		7.63%
Required Operating Income	$	23,343,781	$	22,495,104
Adjusted Operating Income	$	9,749,657	$	11,494,740
Revenue Deficiency	**$**	**13,594,124**	**$**	**11,000,364**
Tax Gross Up Factor		1.26582		1.26582
New Revenue Increase	**$**	**17,207,752**	**$**	**13,924,511**

Q. WHY HAS THE COMPANY REDUCED ITS REVENUE DEFICIENCY BY APPROXIMATELY $3.3 MILLION?

A. In an effort to reduce the number of outstanding issues in this docket, and in conjunction with Staff and CURB's recommendations supporting an abbreviated rate case as discussed below, the Company has accepted many reasonable adjustments proposed by Staff and CURB, as referenced earlier in my testimony.

IV. MAJOR DRIVERS OF REVENUE DEFICIENCY DIFFERENCES

Q. PLEASE IDENTIFY THE MOST SIGNIFICANT ISSUES RESULTING IN THE DIFFERENCE BETWEEN THE COMPANY'S APPLICATION, AND STAFF AND CURB'S RECOMMENDED DEFICIENCIES.

A. Below are the major drivers that make up the difference between Black Hills' application deficiency, and Staff and CURB's recommendations:

- **Capital Structure** accounts for approximately $1.22 million of the revenue deficiency difference between Staff and Black Hills. Staff witness Mr. Gatewood recommends a capital structure with 54.24% debt and 45.76% equity as compared to Black Hills's application recommendation of 49.56% debt and 50.44% equity. CURB witness Dr. Woolridge recommends a capital structure of 50% debt and 50% equity, nearly identical to the Company's request. Black Hills witnesses Mr. Stevens and Mr. McKenzie explain why Staff's capital structure recommendations are inadequate and substantially lower than authorized capital structures in the proxy group and the recently authorized natural gas distribution rate cases. As compared to the most recent recommendations made by Staff in Atmos Energy and Kansas Gas Service rate cases, Mr. Gatewood's recommendation in this proceeding produces a weighted equity component far lower than both other gas utilities in Kansas and would be one of the lowest in the nation should the Commission agree with Staff. The Company maintains its application position in this Rebuttal filing.
- **Return on Equity ("ROE")** accounts for approximately $1.55 million of the difference between Staff and Black Hills' request. Staff witness Mr. Gatewood

recommends a 9.70% ROE and CURB witness Dr. Woolridge recommends a 9.50% ROE as compared to Black Hills' recommendation of 10.5%. Black Hills witness Mr. McKenzie explains in detail why both Staff and CURB's recommended ROEs are inadequate. In addition, Mr. McKenzie outlines the differences in capital structure recommendations by the parties. A corresponding adjustment to the ROE must be made to account for the inherent risk of a higher debt capital structure. Staff's weighted cost of equity recommended in this case is grossly understated compared to the last Kansas Gas Service and Atmos rate cases. Lastly, it is important to note that, since the Company's last rate case in 2021, 30-year U.S. Treasury Bond yields have risen over 300 basis points, while Staff's recommended ROE has only risen 50 basis points from the 9.20% Mr. Gatewood recommended in Docket No. 21-BHCG-418-RTS. Clearly, Staff's recommended ROE in this proceeding lags behind the very real increase in bond yields since 2021. The Company maintains its application position in this Rebuttal filing.

- **Weather Normalization** accounts for $2.2 million of the revenue deficiency difference from Staff's recommendation. Staff witness Dr. Glass relied on a 30-year weather normalization, while the Company's application relied on a 10-year weather normalization. The Company has corrected an error in its weather coefficients which accounts for approximately $1.1 million of the $2.2 million identified above. I provide more discussion regarding Dr. Glass' recommendations below.
- **Rate Base** accounts for approximately $1.06 million of the difference in Staff's revenue deficiency as compared to Black Hills' request. Staff witnesses'

recommendations reduce the Company's requested rate base by approximately $11.7 million. Company witness Ms. Johnson addresses Staff and CURB's recommendations as it relates to the instant proceeding and the request for an abbreviated rate case. Black Hills agrees with Staff's updated rate base, except for the calculation of ADIT and EDIT as discussed in more detail below.

- **Operating and Maintenance ("O&M") Expenses** account for approximately $1.42 million of the difference between Staff and the Company's revenue deficiency. Mr. Eyre, Mr. Smith, and Ms. Johnson address the recommendations to O&M made by Staff and CURB. The Company has incorporated several of Staff's and CURB's adjustments into its Rebuttal RRS, as discussed by Ms. Johnson.

V. WEATHER NORMALIZATION AND RATE DESIGN

Q. PLEASE DISCUSS STAFF'S RECOMMENDATION TO RELY ON A 30-YEAR WEATHER NORMALIZATION FOR BLACK HILLS IN THIS DOCKET.

A. In the Company's 2021 rate case, Staff supported and recommended a 10-year weather normalization. Dr. Glass provides no credible justification for changing positions in this case. Since that point, the Company's Weather Normalization Adjustment ("WNA") rider has experienced less variance from actual weather impacts and has stabilized customer bills as a result. Reverting back to a 30-year weather normalization injects unnecessary risk into the WNA rider which will subject customers to potentially higher charges and credits, and disregards Staff's recommendation in the Company's prior case. Dr. Glass' recommendation to rely on a 30-year weather normalization is not supported by evidence in the record and should be rejected by the Commission.

Q. STAFF WITNESS DR. LANA J. ELLIS MENTIONS GRADUALISM AS IT RELATES TO RATE DESIGN. HOW WOULD YOU EXPLAIN GRADUALISM AS IT RELATES TO UTILITY RATEMAKING?

A. Gradualism in ratemaking generally refers to the idea that rates should be adjusted over time as opposed to large and sudden increases.

Q. DOES STAFF'S RECOMMENDED RESIDENTIAL CUSTOMER CHARGE, AND METHOD OF DETERMINING THE CUSTOMER CHARGE, ACHIEVE ANY FORM OF GRADUALISM?

A. No. Dr. Ellis' recommendation to take the Company's existing customer charge, established in the 2021 rate proceeding through a settlement approved by the Commission, and add it to the current GSRS surcharge, achieves no form of gradualism. In fact, this approach simply keeps current "fixed" charges exactly the same, as no change in the total fixed charge to customers occurs with Staff's recommendation in this docket.

Q. IF STAFF IS EFFECTIVELY RECOMMENDING NO CHANGE IN THE FIXED CHARGE, WHAT IS THE IMPACT?

A. Ultimately, if the Commission approves Staff's recommendations related to customer charges, it will effectively be "kicking the can" down the road until the next general rate case. As shown in Mr. Fritel's Rebuttal Testimony, the Company's fixed charges represent a large portion of its total costs. If the fixed costs represented in the customer charge continue to decline as a portion of overall cost recovery, the Company will face even more challenges in earning its authorized rate of return, which could lead to more frequent and costly rate case filings.

VI. ABBREVIATED RATE CASE REQUEST

Q. PLEASE OUTLINE THE COMPANY'S RECOMMENDATION INCLUDED IN YOUR DIRECT TESTIMONY.

A. In my Direct Testimony, I outlined the Company's proposal for an abbreviated rate case pursuant to K.A.R. 82-1-231(b)(3)(A). In that proposal, Black Hills requested a "true-up" of plant investments through September 30, 2025, or the end of the *pro forma* period. Additionally, the Company sought recovery for plant investments through December 31, 2025.

I note on page 15 of my Direct Testimony that the parameters of the abbreviated rate case proposal will take precedence over the Company's requested treatment for plant in service in its application should the Commission approve the abbreviated rate case proposal.

Q. PLEASE SUMMARIZE MR. UNREIN'S RECOMMENDATIONS REGARDING THE COMPANY'S REQUEST FOR AN ABBREVIATED RATE CASE.

A. Staff witness Mr. Unrein recommends the Commission approve the Company's request for an abbreviated rate case, with certain modifications. First, Mr. Unrein recommends the abbreviated rate case filing only true-up the Construction Work In Progress ("CWIP") balance included in Staff's revenue requirement through September 30, 2025, as opposed to Black Hills's request to true-up plant in service. Second, Mr. Unrein agrees that plant in service, and all associated impacts including accumulated depreciation, ADIT, and depreciation expense be updated through December 31, 2025.

Q. IS STAFF'S POSITION ON THE COMPANY'S ABBREVIATED RATE CASE REQUEST REASONABLE IN THIS INSTANCE?

A. Yes. Allowing the Company to compare and true-up the CWIP balance for projects placed into service in the *pro forma* year will reduce regulatory lag. These projects may have otherwise only been able to be placed into rates through a GSRS filing or another full general rate case. Further, by supporting Black Hills' request to update its plant in service, and other items impacted, through December 31, 2025, the Company is able to further reduce regulatory lag through a streamlined filing solely focused on assets that are used and useful for customers.

Q. PLEASE SUMMARIZE MS. BENHAM'S RECOMMENDATIONS REGARDING THE COMPANY'S REQUEST FOR AN ABBREVIATED RATE CASE.

A. CURB witness Ms. Benham recommends the Commission approve the Company's request for an abbreviated rate case limited to plant in service additions and updates to items associated with plant in service through December 31, 2025. Ms. Benham further recommends the Company's requested insurance tracker be re-examined during the abbreviated rate case.

Q. DO YOU AGREE WITH MS. BENHAM'S RECOMMENDATIONS?

A. For the most part, yes. In conjunction with the Company's agreement with Staff's approach to the abbreviated rate case, I agree with her recommendation for the abbreviated rate case to include plant in service and associated items be updated through December 31, 2025.

Based on the substantial evidence presented in this docket and in conjunction with Staff's recommendation, the Company's request for an insurance tracker should be resolved in the current docket, as discussed further below.

Q. HAS THE COMPANY'S POSITION CHANGED BASED ON THE TESTIMONY FILED BY STAFF AND CURB?

A. Yes. The Company agrees fully with Staff's recommended approach for an abbreviated rate case and agrees in part with CURB's recommendation as it relates to plant additions through December 31, 2025.

VII. DEFERRED ACCOUNTING INSURANCE TRACKER

Q. PLEASE BRIEFLY SUMMARIZE MR. UNREIN'S RECOMMENDATIONS REGARDING THE COMPANY'S REQUEST FOR AN INSURANCE TRACKER.

A. Based on the analysis presented by the Company, Staff recommends approval for the deferred accounting treatment of insurance costs through a tracker, as requested by Black Hills. Additionally, Staff recommends a provision to sunset the insurance tracker at the time of the Company's next rate case and require Black Hills to support the cost recovery of the deferred balance in its next rate case filing.

Q. WHAT DOES MR. UNREIN CITE AS SUPPORT FOR STAFF'S RECOMMENDATION?

A. Beginning on page 47 of Mr. Unrein's Direct Testimony, he outlines several items that support Staff's recommendation. He notes insurance costs for Black Hills have more than doubled from 2021 to 2024. Mr. Unrein discusses the reasons behind this dramatic increase, including the lack of insurers and/or coverage being offered to the market and the likeliness that premiums have significantly increased if coverage is offered.

Additionally, the Company responded to numerous discovery requests on this topic to provide additional evidence and support for the request, as noted by Mr. Unrein.

Q. DO YOU AGREE WITH MR. UNREIN'S RECOMMENDATION FOR THE COMPANY'S INSURANCE TRACKER REQUEST?

A. Yes.

Q. DOES THE COMPANY AGREE WITH CURB'S RECOMMENDATION REGARDING INSURANCE TRACKER?

A. Not entirely. Black Hills appreciates CURB's acknowledgement that insurance costs are on the rise and that the market is volatile. CURB recommends Black Hills utilize a captive insurance company to help mitigate risk. However, as identified on page 23, lines 6 – 7, Ms. Benham accurately says the Company already utilizes a captive insurance Company, Energy Insurance Services ("EIS"), for some of its policies.

Ultimately, the Company disagrees that this issue should be a part of the abbreviated rate case and should be resolved within the instant docket. The abbreviated rate case, if approved, should be limited to Staff's recommendation to true-up CWIP as of September 30, 2025, and plant in service through December 31, 2025.

VIII. TAX ADJUSTMENT RIDER

Q. PLEASE SUMMARIZE STAFF'S RECOMMENDATION AS IT RELATES TO THE RETURN OF NON-PROTECTED EDIT THROUGH THE TA RIDER.

A. Staff witness Ms. Figgs recommends refunding the amount of non-protected EDIT through the TA Rider as proposed by the Company. She goes on to state on page 46 of her Direct Testimony that:

> After Black Hills files its 2024 income tax return and the amounts are finalized, a true-up adjustment will be made in the TA Rider. The Company proposes this true-up adjustment occur prior to the first month of refunds being given to customers. If time does not allow for a true-up prior to November 1, 2025, the Company proposes to true-up the final EDIT amount at the end of the refund period, after April 30, 2025.

Q. DO YOU AGREE WITH MS. FIGGS' RECOMMENDATIONS TO THE COMPANY'S TA RIDER PROPOSAL?

A. Yes. As identified previously in my testimony, the Company's estimate of EDIT to refund customers is $2,950,909. Black Hills will follow the process outlined above to true-up and refund the exact amount of EDIT once the Company files its 2024 federal income tax return sometime in October 2025.

Q. HOW DOES THE COMPANY PROPOSE TO ALLOCATE THE NET EDIT TO CUSTOMER CLASSES WITHIN THE TA RIDER?

A. The Company proposes to allocate the EDIT to its customer classes in the same manner that rate base is allocated within the Class Cost of Service Study sponsored by Mr. Fritel. KSG Rebuttal Exhibit RD-3, shows the allocation of the total refund to each customer class.

Q. PLEASE DISCUSS THE PROPOSED RATE DESIGN WITHIN THE TA RIDER.

A. The proposed TA Rider rates reflected in KSG Rebuttal Exhibit RD-3 are designed as a percentage reduction to base rates for each customer class. When accounting for the Company's final estimate of EDIT of $2,950,909 to refund to customers, the net impact on a typical residential bill from November 2025 through April 2026. For example, for a residential customer, the proposed TA Rider rate is a 2.3033 percentage reduction to base rates.

Table RD-3 below illustrates how this would be applied on a residential customer's bill based on an average monthly consumption between November and April of 88 therms and using the proposed base rates in this filing.

Table RD-3

Residential Bill Component	Rate	Bill Amount
Customer Charge	$30.00	$30.00
Delivery Charge	$0.19899	$17.51
Total Base Rate Charges		$47.51
TA Rider Refund **(-2.3033)% x $47.51 base rate charges)**	-2.3033%	$(1.09)
PGA	$0.64694	$56.93
Total Bill		$104.44

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the Commission adopt the Company's proposal to refund approximately $3 million through the TA Rider to ensure Non-Protected EDIT is provided to customers quickly and efficiently over the upcoming heating season.

IX. <u>ADIT AND EDIT</u>

Q. PLEASE DESCRIBE STAFF'S ADJUSTMENTS TO THE COMPANY'S ADIT AND EDIT BALANCES.

A. Staff adjusted ADIT and EDIT to actual February 28, 2025, balances with *pro forma* adjustments to ADIT and EDIT.

Q. WHAT PRO FORMA ADJUSTMENTS DID STAFF MAKE TO ADIT AND EDIT?

A. Staff made four computational adjustments to February 28, 2025, ADIT balances for bad debt, net operating losses, Public Utility Commission ("PUC")[3] fees, and prepaid expenses. These adjustments are computational because they relate to other adjustments Staff made. For example, Staff made a $179,145 adjustment to increase bad debt in FERC account 904 – Uncollectible Accounts on IS-10. Since the increase in bad debt expense is not deductible for tax purposes until it is deemed worthless by the tax rules, it is not a deduction for tax purposes until a subsequent year. For book purposes it is deducted immediately. A future tax deduction creates a deferred tax asset ("DTA") that is computed by multiplying the adjustment by the income tax rate of 21%. As a result, Staff increased the DTA on RB-9 ADIT-EDIT, Line 2, by $37,620. Although the Company agrees with this methodology, it computes a different number for adjusted revenue and therefore an adjustment to bad debt of $170,032 on Sched H-9, line 23, and a DTA adjustment of $35,707on Schedule C-1, line 3, column (f).

Staff calculates a *pro forma* adjustment to include a DTA for net operating losses in the amount of $2,618,790 on RB-9 ADIT-EDIT, line 14, based on a taxable loss generated as of February 28, 2025, and computed using the "with" and "without" methodology on RB-9 KLF-5a as required by the IRS normalization rules. The Company agrees with the mechanics of this adjustment but arrives at a lower amount based on differences in utility operating income of $1,832,463 on Sched C-2, row 20 and Sched C-1, line 15, column (f). Furthermore, Staff inadvertently did not update the Other Permanent Differences on RB-9 KLF-5a to be as of February 28, 2025, the balance reflected is the September 30, 2024,

[3] These are Kansas Corporation Commission Fees, the Company's tax provision system uses the generic naming convention PUC Fees.

balance.

Staff increases the DTA for PUC fees of $1,360 on RB-9 ADIT-EDIT, line 18, based on an adjustment to PUC fees on IS-16. The Company arrives at a slightly different value based on differences in the Incremental Revenue Increase found on Sched H-14 that results in an increase to the DTA on Sched C-1, line 19, column (f) of $4,080. Like bad debts, this DTA is the tax effect of the adjustment to regulatory commission expenses since they are not deducted until paid for tax purposes.

Lastly, Staff made an adjustment to the Deferred Tax Liability ("DTL") for prepaid expense in the amount of $1,330 on RB-9 ADIT-EDIT. Since prepaid expenses are immediately deductible for tax purposes and not for book purposes, they represent a future tax obligation, so a DTL is created. The Company agrees with this methodology but arrives at a slightly different value based on a different adjustment to prepaid expenses on Sched H-6 that results in an increase to the DTL of $2,691 on Sched C-1, line 42, column (f). Additionally, Staff inadvertently used the wrong sign on the adjustment to the prepaid temporary difference on Stmt K line 40. This sign should indicate a negative amount since increasing prepaid expenses results in additional tax deductions and deferred income tax expense. Staff has the correct sign in their ADIT schedule, however.

Q. DID STAFF OMIT ANY PRO FORMA ADJUSTMENTS TO ADIT AND EDIT RELATED TO EXPENSE ADJUSTMENTS?

A. Yes. Staff did not increase the DTLs on Schedule C-1 for adjustments to Pension retiree healthcare expenses of $2,740 (line 12, column (f)) and $2,691 (line 42, column (f)). The related expense adjustments are found on Schedule H-6.

Q. ARE THERE REMAINING PRO FORMA ADJUSTMENTS NOT CONTEMPLATED BY STAFF?

A. Yes. There are four other adjustments that are required to ADIT and EDIT. The first is for correction of an error to Cost of Removal – Average Rate Assumption Method ("ARAM") Deferred Deficient Income Tax ("COR-DDIT"), as discussed below. The second and third adjustments are to incorporate the effect of the adoption of IRS Revenue Procedure 2023-15 for the natural gas safe harbor method for tax repairs ("NGSH") as discussed in my Direct Testimony. The adoption of the NGSH results in two customer benefits. The first is a catch-up adjustment of ADIT to true-up the prior years to the NGSH method. This true-up goes back and calculates tax repairs based on the new method. Since the prior year repairs are treated as deducted in the year incurred, rather than capitalized and depreciated, this results in a catch-up adjustment to DTL which is a reduction to rate base. The catch-up adjustment to DTL is $1,013,711. The second benefit is that prior depreciation related protected EDIT is now reclassified as non-protected ADIT and may be refunded more rapidly than over ARAM as required by the normalization rules for protected EDIT. Simply put, rather than amortizing over the life of the property as required by ARAM, the amortization may be returned however the KCC deems appropriate. Please refer to the adjustments to EDIT and ADIT resulting from the EDIT refund below.

Lastly, an adjustment to the property related DTL is required for the adjustment to book depreciation. Since there is an adjustment to increase book depreciation expense by $553,720 on Stmt J, line 29, column (f), an adjustment is required to reduce ADIT by $116,281 ($553,720 x 21%). This adjustment is required by the normalization consistency rules that require book depreciation, tax expense, ADIT, and plant in service to utilize the same set of assumptions. Since the adjusted depreciation expense in column (e) is utilized in the computation of operating income and depreciation expense to collect in rates, ADIT must also utilize the same depreciation expense. An increase in depreciation expense reduces the favorable book and tax temporary difference, ADIT is reduced as a result. The $116,302 adjustment to ADIT is included in the $897,430 *pro forma* adjustment to ADIT in Account 282300 on Sched C-1, line 24, column (f). The $897,430 adjustment is the $1,013,711 increase to ADIT for the NGSH adoption less the $116,281 decrease to ADIT for the book deprecation adjustment.

Q. PLEASE EXPLAIN THE ERROR IN THE COR DDIT BALANCE?

A. The Company inadvertently removed a portion of COR-DDIT totaling $81,169 that were incorrectly recorded to Non-Refunded ARAM in the amount of $277,990 (asset balance) and to regulatory liability state in the amount of $359,160 (liability balances). The Company originally made a *pro forma* adjustment in Ms. Johnson's Direct Exhibit SKJ-2 per book balances as of September 30, 2024, to remove these balances from rate base as they included non-protected EDIT amounts that were approved in the prior rate proceeding to be refunded in the TA Rider. That three-year amortization ended December 31, 2024, so those balances should have been zero as of February 28, 2025. Upon further investigation, the remaining balances are related to COR DDIT. Although a *pro forma* adjustment to zero out those accounts is appropriate, they should have been reclassed to COR DDIT of $804,932 on Schedule C-1, line 31, for the correct February 28, 2025, balance of $723,762. The reclass is included on Sched C-1, line 31, column (f) in the amount of a decrease to DDIT of

$81,169.

Q. IS IT APPROPRIATE TO REMOVE NON-PROTECTED EDIT FROM RATE BASE THAT WILL BE REFUNDED THROUGH THE TA RIDER?

A. Yes. Consistent with the prior rate proceeding, non-protected EDIT to be refunded in the TA Rider is removed from base rates. As a result, the Company has made a pro forma adjustment on Sched C-1, line 30, column (f) to remove the $2,950,909 of EDIT that was previously protected EDIT that will be refunded outside of base rates in the TA rider. In addition, there are computational adjustments to ADIT for *pro forma* adjustments to EDIT.

Q. PLEASE DESCRIBE THE COMPUTATIONAL ADJUSTMENTS TO ADIT WHEN EDIT IS ADJUSTED?

A. The regulatory liability for EDIT in account 254100 is grossed up for tax purposes to reflect the amounts that must be refunded to customers. The offset to the tax gross-up is included in account 190300 on Sch C-1, line 9. The *pro forma* adjustment to remove the non-protected EDIT to be refunded outside of base rates requires a reduction in the DTA for the tax gross-up offset in the amount of $619,691 as shown on C-1, line 9, column (f).

Q. PLEASE DESCRIBE CURB'S ADJUSTMENTS TO THE COMPANY'S ADIT AND EDIT BALANCES.

A. CURB adjusted the ADIT and EDIT to be actual February 28, 2025, balances with only one adjustment to the Company's February 28, 2025, balances. CURB proposed to include the $359,160 identified in the Company records as Kansas EDIT. As stated above, this amount is actually related to COR DDIT and the Company has made this correction in its Rebuttal filing. Also, as stated above, certain pro forma adjustments are required, particularly the *pro* *forma* adjustment to include the DTA for net operating losses and the adjustment to property ADIT for the adjustment to book depreciation as required by the IRS normalization rules. Additionally, CURB did not make an adjustment to remove the DTAs for Pension and Retiree Healthcare in the amount of $1,107,721 and $114,435 respectively as shown on Sched C-1 lines 13 and 14. These two DTA are not related to the temporary book and tax timing differences for pension and retiree healthcare. Those amounts are included on Schedule C-1, lines 12 and 42. The DTAs on lines 13 and 14 are the offsets to tax gross-up amounts in accounts 254100 and 254200. The regulatory assets for pension and retiree healthcare in accounts 182315 and 182316 are required by GAAP to be shown on the balance sheet net of taxes which are recorded to 254100 and 254200. The liabilities in 254100 and 254200 are offset by the DTAs on lines 13 and 14 on Sched C-1, the sum of these amounts is zero. Since the regulatory assets for pension and retiree healthcare and the tax accounts in 254100 and 254200 are not included in rate base, the DTA offsets in 190300 should also be excluded.

Q. ARE ALL THE CHANGES AND CORRECTIONS IDENTIFIED ABOVE RELATED TO ADIT AND EDIT REFLECTED IN THE COMPANY'S REBUTTAL FILING SCHEDULES?

A. Yes. The changes and corrections are included in Ms. Johnson's Rebuttal RRS-1, Schedule C-1 and Statement K. Ms. Johnson provides a discussion of these changes in her Rebuttal Testimony.

X. OTHER RECOMMENDATIONS

Q. DO YOU AGREE WITH MR. UNREIN'S RECOMMENDATION TO CONTINUE ALL OTHER RIDERS AND TRACKERS CURRENTLY APPROVED FOR BLACK HILLS?

A. Yes. I agree with Mr. Unrein's recommendation that all currently approved riders and trackers continue for the Company.

XI. CONCLUSION AND RECOMMENDATIONS

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. I recommend that the Commission approve the following:

- The revenue deficiency as updated in Black Hills Rebuttal filing;
- The proposed capital structure, cost of debt, and return on equity for Black Hills;
- The Company's proposed deferred accounting tracker related to insurance premium costs as modified and supported by Staff;
- Black Hills' request for an abbreviated rate case with Staff's recommended changes;
- The Company's adjustments to ADIT and EDIT;
- The refund of $2,950,909 of EDIT to customers through the TA Rider from November 2025 through April 2026; and
- All tariff changes recommended by Company witnesses in their respective Rebuttal Testimonies.

Q. WHY SHOULD THE COMMISSION REJECT STAFF AND CURB'S OVERALL RECOMMENDATIONS REGARDING BLACK HILLS' RATE APPLICATION?

A. The Commission should reject the overall recommendations of Staff and CURB because they fail to provide Black Hills with a reasonable opportunity to recover its prudently incurred costs and earn a fair return on its investment, both of which are essential to maintaining a safe, reliable, and financially sustainable gas utility system in Kansas. Approving the Company's proposed capital structure, return on equity, and related adjustments will ensure long-term system integrity, while adopting Staff and CURB's recommendations would jeopardize that opportunity.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

AFFIDAVIT OF ROBERT DANIEL

State of Arkansas)
) ss
County of Washington)

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

JEFF DANGEAU
Notary Public-Arkansas
Washington County
My Commission Expires 11-05-2025
Commission # 12696056

Robert Daniel

Subscribed and sworn to before me,
A Notary Public, in and for said County
and State, this 22 day of May 2025

Notary Public

My Commission expires: 11/05/2025

Adjustments Unopposed or Partially Opposed by Black Hills

Adj. No.	Witness	Description	BH Witness
Staff IS-1/CURB ALB-26	Buller/Benham	Depreciation Expense	Johnson
Staff IS-2	Buller	Fleet Depreciation Expense	Johnson
Staff IS-5	Buller	Line Locate Expense	Eyre/Johnson
Staff IS-6*	Baldry	Advertising Expense	Johnson
Staff IS-8	Baldry	Pension and OPEB Expense	Stevens/Johnson
Staff IS-9	Baldry	Pension/OPEB Tracker 1 Amortization Expense	Stevens/Johnson
Staff IS-10	Figgs	Bad Debt Expense	Johnson
Staff IS-11	Figgs	Forfeited Discounts Revenue	Johnson
Staff IS-12	Figgs	Direct Payroll Expense	Johnson/Pontious
Staff IS-13	Figgs	Intercompany Charges Expenses	Johnson/Pontious
Staff IS-17	Figgs	PHMSA Fee Expense	Eyre/Johnson
CURB ALB-20	Benham	Rate Case Expense	Johnson
CURB ALB-25	Benham	Vegetation Management Expense	Eyre/Johnson
CURB ALB-26	Benham	Depreciation Expense	Johnson
Staff RB-1	Buller	Plant in Service through February 28, 2025	Johnson
Staff RB-2	Buller	Accumulated Depreciation through February 28, 2025	Johnson
Staff RB-3	Buller	CWIP (Return Only) at February 28, 2025	Johnson
Staff RB-4	Buller	Gas in Storage 13 Month Average as of February 28, 2025	Johnson
Staff RB-5	Figgs	Materials and Supplies 13 Month Average as of February 28, 2025	Johnson
Staff RB-6	Figgs	Prepayments 13 Month Average as of February 28, 2025	Johnson
Staff RB-7	Figgs	Customer Deposits 13 Month Average as of February 28, 2025	Johnson
Staff RB-8	Figgs	Customer Advances 13 Month Average as of February 28, 2025	Johnson
CURB ALB-4	Benham	Plant in Service through February 28, 2025	Johnson
CURB ALB-5	Benham	Accumulated Depreciation through February 28, 2025	Johnson

*Denotes adjustment that has been corrected by Black Hills

Adjustments Opposed by Black Hills

Adj. No.	Witness	Description	BH Witness
Staff IS-3/CURB ALB-22	Buller/Benham	DIIP Expense	Eyre/Johnson
Staff IS-4	Buller	Vegetation Mgmt Expense	Eyre/Johnson
Staff IS-7	Baldry	Misc. Expense	Johnson
Staff IS-15/CURB ALB-21	Figgs/Benham	Payment Processing Expense	Smith/Johnson
Staff IS-16	Figgs	Commission Fee Expense	Johnson
Staff IS-18/CURB ALB-23	Figgs/Benham	Research and Development Expense	Smith/Johnson
Staff IS-19	Glass	Weather Norm and Irrigation Revenue	Fritel/Johnson/Daniel
Staff IS-20	Glass	Customer Annualization Revenue	Fritel/Johnson
Staff IS-21	Figgs	Rate Case Expense	Johnson
Staff IS-23	Figgs	Income Tax Expense	Johnson
CURB ALB-13	Benham	Salary and Wage Adj - Direct Expense	Johnson
CURB ALB-14	Benham	Salary and Wage Adj - BHSC Expense	Johnson
CURB ALB-15	Benham	Incentive Compensation Expense	Johnson/Pontious
CURB ALB-16	Benham	Payroll Tax Expense	Johnson
CURB ALB-17	Benham	Pension/OPEB Expense	Stevens/Johnson
CURB ALB-18	Benham	Pension/OPEB Amortization Expense	Stevens/Johnson
CURB ALB-19	Benham	Bad Debt Expense	Johnson
CURB ALB-24	Benham	Damage Prevention Expense	Eyre/Smith/Johnson
CURB ALB-27	Benham	Interest Syncronization	Johnson
CURB ALB-29	Benham	Revenue Multiplier	Johnson
Staff RB-9	Figgs	ADIT and EDIT as of February 28, 2025	Johnson/Daniel
CURB ALB-6	Benham	Deferred Income Taxes as of February 28, 2025	Johnson/Daniel
CURB ALB-7	Benham	ADIT - Property as of February 28, 2025	Johnson/Daniel
CURB ALB-8	Benham	Reg Liability - TCJA as of February 28, 2025	Johnson/Daniel
CURB ALB-9	Benham	Reg Liability - Kansas EDIT as of February 28, 2025	Johnson/Daniel
CURB ALB-10	Benham	ADIT - Other as of February 28, 2025	Johnson/Daniel
CURB ALB-11	Benham	BHSC ADIT and EDIT as of February 28, 2025	Johnson/Daniel

Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy **KSG Rebuttal Exhibit RD-3**

Calculation of TA Rider Rates

Customer Class	**Rate Base Allocation Factors**[1] (A)		**Rider TA Refund Amounts by Cust Class** (B) = (A) * 2,950,909		**Proposed Base Rate Revenue by Cust Class**[2] (C)	**Calculated Refund Percentage by Cust Class** (D) = -(B) / (C)
Residential	70.71%	$	2,086,715	$	30,198,672	**-2.3033%**
Small Commercial	10.42%	$	307,408	$	5,201,758	**-1.9699%**
Small Volume	7.30%	$	215,476	$	3,342,328	**-2.1490%**
Large Volume	7.16%	$	211,172	$	3,306,620	**-2.1288%**
Irrigation	4.41%	$	130,139	$	892,405	**-4.8610%**
Total	100.00%	$	2,950,909	$	42,941,783	

[1] Based on rate base in KSG Rebuttal Exhibit EJF-9, Table 1, Line No. 2

[2] Based on rates developed using proposed revenues in KSG Rebuttal Exhibit EJF-10, Line No. 21, for November through April