
**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

**IN THE MATTER OF THE APPLICATION OF BLACK HILLS POWER, INC. DBA BLACK HILLS ENERGY FOR
AUTHORITY TO INCREASE RATES FOR ITS UTILITY SERVICE IN SOUTH DAKOTA**

**STAFF MEMORANDUM
SUPPORTING SETTLEMENT STIPULATION**

DOCKET EL26-003

Commission Staff (Staff) submits this Memorandum in support of the Settlement Stipulation (Settlement) of October 23, 2026, between Staff, Dakota Panel, Fischer Furniture, Inc., Forest Products Distributors, Inc., GCC Dacotah, Inc., Monument Health Rapid City Hospital, Inc., Pete Lien & Sons, Inc., the South Dakota Science and Technology Authority, and Spearfish Forest Products Inc. (SDLCG), and Black Hills Power, Inc. dba Black Hills Energy (BHP or Company) in the above-captioned matter.

BACKGROUND

On February 19, 2026, the Company filed an application with the South Dakota Public Utilities Commission (Commission) requesting approval to increase revenues for electric service from customers in its South Dakota retail service territory by approximately \$50.6 million annually or approximately 25.1%. A typical residential electric customer using 650 kWh per month would see an increase of \$25.13 per month or 25.4% under BHP's proposed rates.

BHP's proposed increase was based on a historical test year ended September 30, 2025, adjusted for what BHP believed to be known and measurable changes, a 10.5% return allowance on common equity, and an 8.16% overall rate of return allowance on rate base.

BHP's last base rate increase application was filed on March 31, 2014¹. BHP states² the primary drivers for BHP's need to increase electric rates are to recover: (1) additional capital investment (rate base) and the associated depreciation expense; (2) increases in operating costs incurred by BHP in providing electric service to its customers; (3) on-going and planned investments in infrastructure; and (4) increases in the cost of capital.

The Commission officially noticed BHP's filing on February 26, 2026, and set an intervention deadline of April 17, 2026. On March 31, 2026, the Commission issued an Order Suspending Operation of Proposed Rates; Order Assessing Filing Fee; Order Authorizing Executive Director to Enter Into Consulting Contracts. On March 20, 2026, John D. McKee Sr., of Rapid City, South Dakota, filed a Petition to Intervene on his own behalf. On April 8, 2026, the Commission issued an Order Granting Intervention to

¹ See Docket EL14-026

² See Public Rate Increase Notice

Mr. McKee. On March 15, 2026, SDLCG filed a Petition to Intervene. On May 13, 2026, the Commission issued an Order Granting Intervention to SDLCG. On July 17, 2026, BHP filed a Notice of Intent to Implement Interim Rates effective on and after August 18, 2026. On July 30, 2026, the Commission issued an Order Granting Motion for Withdrawal of Intervention for Mr. McKee.

Staff engaged three consultants to assist in review of the application: Basil L. Copeland, Jr. – rate of return and weather normalization; Ryan Pfaff (Polk and Vine, LLC) – selected revenue requirement issues, jurisdictional cost allocation, class cost of service, and selected rate design matters; and Colton Kennedy (CMK Energy Group) – Neil Simpson II Conversion and BA/Real-time pricing decisions. Staff propounded 16 sets of formal discovery requests to BHP. Within the 16 sets of discovery requests there were approximately 350 total formal discovery requests, with approximately 780 total requests when including all the subparts. In addition, Staff conveyed numerous informal requests to BHP. There were also numerous phone calls and meetings between Staff and BHP personnel seeking additional and clarifying information.

Settlement discussions between the Staff, SDLCG, and BHP (jointly, the Parties) commenced on September 14, 2026. Thereafter, the Parties held numerous additional settlement discussions in an effort to arrive at a mutually acceptable resolution of the issues presented in BHP's filing. Ultimately, the Parties reached a comprehensive agreement on BHP's overall revenue deficiency and other issues presented in this case including, but not limited to, class revenue responsibilities, rate design, and tariff concerns.

OVERVIEW OF SETTLEMENT

Staff's revenue requirement determination is the result of a comprehensive analysis of BHP's filing and information obtained during discovery. Staff accepted some Company adjustments, made corrections where necessary, modified other adjustments, and rejected those that did not qualify as known and reasonably measurable. Lastly, Staff introduced new adjustments not reflected in BHP's filed case.

Company, SDLCG, and Staff positions were discussed thoroughly at the settlement conferences. As a result, some positions were modified, and others were accepted where consensus was found. Ultimately, the Parties agreed on a comprehensive resolution of all issues. Staff believes the settlement is based on sound regulatory principles and avoids additional costly and unnecessary litigation.

The Parties agree BHP's net revenue deficiency is approximately \$27,354,000, justifying an approximate 13.62% increase in retail revenues. The revenue requirement and supporting calculations described in this Memorandum and attachments depict Staff's positions regarding all components of BHP's South Dakota jurisdictional revenue requirement.

The total revenue impact summary is shown on Staff Exhibit____(JMR-2), Schedule 1. The revenue increase by rate schedule is shown on Staff Exhibit____(JMR-2), Schedule 2. Staff Exhibit____(JMR-2), Schedules 2-1 through 2-7 reflect the settlement base rates for each rate schedule. The comparison between present and settlement rates and resulting bill impacts for the Residential Service rate schedules is shown on Exhibit____(JMR-2), Schedule 3.

STAFF OVERVIEW OF BASE RATE SETTLEMENT

Staff's settlement revenue requirement determination begins with total Company test year costs for the 12 months ended September 30, 2025, and allocates those amounts to the South Dakota retail jurisdiction. Staff then adjusted the September 30, 2025, test year results for known and measurable post-test year changes. Staff Exhibit___(BAM-1), Schedule 3 illustrates Staff's determination of BHP's *pro forma* South Dakota operating income under present rates. Staff Exhibit___(BAM-2), Schedule 2 illustrates Staff's calculation of BHP's *pro forma* South Dakota retail rate base, and Staff Exhibit___(BAM-1), Schedule 2 and Staff Exhibit___(BAM-2), Schedule 1 summarize the positions. Staff Exhibit___(BAM-1), Schedule 1 summarizes Staff's determination of BHP's South Dakota revenue deficiency and total South Dakota revenue requirement to be collected through base rates.

Staff's revenue requirement model differs from the Company's revenue requirement model in that BHP's model calculates the revenue requirement at the total Company level (Statements) and then allocates the *pro forma* results to South Dakota at the end, whereas Staff allocates per books and each adjustment to South Dakota to determine the South Dakota *pro forma* revenue requirement. Staff prefers to present all adjustments at the South Dakota level to demonstrate the impact of each adjustment on South Dakota customers. Although the models differ in approach, the end result should be the same. Staff performed a reconciliation model of the Company's filed case to ensure Staff's model produced the same results as the Company's. For ease of comparing Staff's depiction of the settlement to the Company's filed case, Staff provides Staff's reconciliation of the Company's filed case at the South Dakota level as Exhibit___(BAM-24). With the recently approved Administrative Rule change to ARSD 20:10:13:40, going forward all rate case filings will be made at the state level when filed.

Staff's model starts with the per books operating income (Exhibit___(BAM-1) Schedule 3, column b) and rate base (Exhibit___(BAM-2) Schedule 2, column b) as filed by the Company on Statement M. The South Dakota "per books" identified by the Company on Statement M are allocated based on the Company's proposed *pro forma* jurisdictional allocation factors. While Staff would ideally base South Dakota per books on the per books allocation factors, in order to minimize changes from the Company's filed case to Staff's presentation of the revenue requirement, Staff based its case off of the South Dakota per books as presented in Statement M³.

However, an adjustment was necessary in Staff's model in order to reconcile to the Company's model due to how some South Dakota amounts were allocated on Statement M for presentation purposes versus how the costs flowed through the Company's jurisdictional allocations in Statement N. First, income taxes are allocated to South Dakota on Statement M using a blended allocation factor⁴ whereas when the taxes are allocated in Statement N, different allocation factors are used for different types of tax adjustments. Therefore, Staff's model reflects an adjustment to change per books taxes from being allocated based on the blended *pro forma* allocation factor to being allocated based on the appropriate specific allocation factors. Similarly, Statement M shows certain other rate base items as being allocated based on a single blended allocation factor.⁵ However, when the Company allocates these items in its jurisdictional allocation model (Statement N), several allocation factors are used. Since Staff's model starts with these items allocated based on the blended allocation factor, an adjustment is necessary in Staff's model to change per books other rate base to be allocated based on the specific allocation

³ See Statement M, page 11 of 18 through page 18 of 18

⁴ See Statement M, page 18 of 18, line 428

⁵ See Statement M, page 14 of 18, lines 222, 223, and 224.

factors. These reconciling allocation adjustments are detailed on Exhibit___(BAM-24), page 6, pages 12-14, page 16, and pages 25-30, and are included as part of the per books change in allocations adjustments found on Exhibit___(BAM-1), Schedule 3, column (aq) and Exhibit___(BAM-2), Schedule 2, column (k). These adjustments are necessary adjustments in Staff's model, but have no impact compared to the Company's filed case.

Below is a brief discussion of the issues that Staff identified in the case and Staff's view of the resulting settlement of each issue. Unless otherwise noted, all changes discussed below are changes from the Company's filed position. Attachment A provides a summary of the changes made to the Company's filed case compared to the settlement. All adjustments are impacted by the change in jurisdictional allocation factors from the allocation factors initially proposed by Black Hills to the *pro forma* settlement allocation factors. However, the South Dakota amounts noted below, and the amounts noted on Attachment A for each adjustment reflect the difference between the Company's filed case and the settlement, before changes in jurisdictional allocation factors. Attachment A isolates the impact of the change in jurisdictional allocation factors.⁶

RATE BASE AND OPERATING INCOME ADJUSTMENTS

Purchased Power & Fuel Expense – BHP proposes an adjustment to remove expenses for the energy resources used to serve customer loads through purchase power agreements, market purchases, natural gas purchases, and transmission expenses which are recovered through the ECA. These expenses are removed as they are recovered outside of base rates. The settlement accepts this adjustment.

Intercompany Allocated Charges From BHSC Expense – BHP proposed on Schedule H-4 to adjust the test year charges allocated to BHP from Black Hills Service Company (BHSC). The Company's adjustment annualized service company wages and benefits at 2026 levels, added \$3,496,431 for an increase in service company headcount, increased allocated insurance premiums by \$2,454,349 based on an estimate of the July 2026 policy renewal, and increased allocated costs by \$1,714,360 based on estimated 2027 allocation factors under the Cost Allocation Manual (CAM). The filed adjustment increased allocated charges by \$9,109,270 on a total company basis, consisting of a labor adjustment of \$4,453,569 (including the \$3,496,431 headcount increase), the \$2,454,349 insurance premium adjustment, a \$581,936 pooled medical adjustment, the \$1,714,360 CAM adjustment, and the removal of \$94,944 of insurance costs inadvertently attributed to BHP rather than the appropriate affiliate.⁷ The Company also requested deferred accounting treatment for the difference between the insurance expense reflected in base rates and the insurance expense incurred in future periods. Staff's review and the settlement treatment of each component are described below.

Service company wage levels and headcount. The record did not include a position-level compensation analysis supporting the reasonableness of the proposed wage levels, and positions that had not been filled were not a known and measurable change in the cost of service. Under the Settlement, the annualization of 2026 merit and benefit changes for service company employees is accepted and the headcount increase is removed. The service company labor adjustment reflected in the settlement model is \$718,968 on a total company basis.⁸ The Company's commitment to provide position-level

⁶ See Jurisdictional Allocation Factors section on page 18.

⁷ Attachment Staff 1.1at, LJM WP-35, Schedule H-4, line 147, columns (d) through (i), and Note (1); Labor Adjustment tab, column (d), total line.

⁸ Staff Exhibit___(RP-1), column (d), line 147.

compensation data with its next general rate case, described under Annualization of Direct Employee Expense below, extends to service company employees whose costs are allocated to BHP.

Intercompany insurance premiums. The Company's filed adjustment of \$2,454,349 was based on an estimate of the premiums for the policy year beginning in July 2026. At the time of the filing the renewal had not occurred, and the estimated premiums were not known and measurable. The renewal was completed during the proceeding. The Settlement reflects the actual July 2026 renewal premiums, annualized, which produce an adjustment of \$483,212 on a total company basis, consisting of increases of \$353,763 in Account 566 and \$230,401 in Account 925 and a decrease of \$100,952 in Account 924.⁹

Deferred accounting treatment of insurance expense. The Company requested authority to defer the difference between the insurance expense included in base rates and the insurance expense incurred in future periods for consideration in a subsequent proceeding. Staff did not support the request. Insurance premiums are a recurring operating cost that is set at a known and measurable level in base rates in the same manner as other operating costs, and deferral of the variance in a single recurring expense item would shift to customers a cost risk that the Company otherwise bears between rate cases. Under the Settlement, the Company withdraws its request for deferred accounting treatment of insurance expense.

Updated CAM allocation factors. The Company's filed adjustment increased allocated BHSC costs by \$1,714,360 to reflect estimated 2027 CAM allocation factors. The 2027 factors were estimates, and the resulting change in allocated cost was not known and measurable. Under the Settlement, the adjustment is removed, and the settlement model reflects no CAM adjustment.

The Settlement retains the Company's pooled medical adjustment of \$581,936 and the removal of the \$94,944 of insurance costs attributed to the affiliate, each on a total company basis.¹⁰

The settlement adjustment increases intercompany allocated charges from BHSC by \$1,689,172 on a total company basis and \$1,485,130 South Dakota jurisdictional.¹¹

The change from the Company's filed case reduces the South Dakota revenue deficiency by approximately \$6,628,000.

Annualization of Direct Employee Expense – BHP proposed on Schedule H-5 to annualize direct employee payroll and benefit expense for 2026 wage and benefit changes using payroll data as of September 30, 2025, for 200 full-time employees and eight open positions, a total of 208 employees. The filed adjustment increased direct employee expense by \$2,800,585 on a total company basis, net of fuel labor recovered through the ECA.¹² The eight open positions were an O&M Supervisor, a Service Mechanic, a Manager of Electric Operations, a Specialist Engineering Document Controls II, and four

⁹ Staff Exhibit___(RP-1), column (e), lines 56, 131, 132, and 147.

¹⁰ Staff Exhibit___(RP-1), column (f), line 147, and column (c), line 131; Attachment Staff 1.1at, LJM WP-35, Schedule H-4, Note (1).

¹¹ Staff Exhibit___(RP-1), columns (h) and (m), line 147.

¹² Mack Direct, p. 39, lines 9 through 13; Attachment Staff 1.1au, LJM WP-36, Schedule H-5, line 149, column (d), and Notes (1) and (2).

Plant Maintenance Operators.¹³ Positions that remained unfilled at the end of the test year were not a known and measurable change in the Company's staffing.

Under the Settlement, the annualization of 2026 merit and benefit changes for direct employees is accepted and all open positions are removed. The Company also commits to include with the direct filing in its next general rate case a position-level compensation analysis supporting the reasonableness of non-union wage levels, including the pay grade structure, grade midpoints, and the market survey data used to set them. This information will allow Staff to evaluate wage levels and headcount changes on a position basis in the next case.

The settlement adjustment increases direct employee expense by \$2,368,735 on a total company basis, of which \$83,588 relates to Account 501 fuel labor recovered through the ECA and is excluded from base rates. The resulting increase in base rate operating expense is \$2,285,147 on a total company basis and \$2,026,974 South Dakota jurisdictional.¹⁴

The change from the Company's filed case reduces the South Dakota revenue deficiency by approximately \$461,000.

Out of Period/Non-Recurring Adjustments – BHP proposed an adjustment to the per book data for any out of period or atypical expenses made during the Test Period. This adjustment included a correction for some misallocated GDPM expenses, removal of a true up of over-accrued expenses recorded on auto litigation, and a removal of some non-recurring O&M expenses. This adjustment helps ensure rates are based around a normal test year expense. The settlement accepts this adjustment.

Advertising Expense – BHP proposed an adjustment to remove advertising expenses that should not be recovered from ratepayers. The settlement accepts this adjustment and further removes additional advertising costs which do not contribute to the provision of safe, adequate, and reliable electric service for South Dakota ratepayers. This additional disallowance reduces operating expenses by approximately \$4,000.

Removal of Dues and Contributions Expense – BHP proposed an adjustment to remove association dues and contributions associated with economic development associations and other similar contributions not recoverable from customers. Staff further removed approximately \$8,000 of South Dakota's share in additional association dues. This additional adjustment decreases operating expenses and the revenue deficiency by approximately \$8,000.

Bad Debt Expense – BHP proposed an adjustment to increase bad debt expense based on a three-year uncollectible rate average from October 2022 through September 2025. The settlement updates the three-year uncollectible rate average to July 2023 through June 2026 and applies this rate to the Settlement pro forma sales of electricity revenues, ECA sales of electricity revenues, Renewable Ready revenues, and the Settlement revenue deficiency. The net effect of this change increases operating expenses by approximately \$121,000.

Pension & Retiree Healthcare Expense – BHP proposed on Schedule H-10 to adjust test year pension and retiree healthcare expense to the actuarially forecasted expense for the pro forma period ending

¹³ Confidential Attachment Staff 15.5, Vacancies, Hires & Open Positions Status.

¹⁴ Staff Exhibit____(RP-5), column (h), lines 147, 149, and 151, and column (m), line 151.

September 30, 2026, reducing retiree healthcare expense by \$39,277 and pension expense by \$35,817, a net reduction in operating expense of \$75,093 on a total company basis¹⁵, which is \$66,539 South Dakota jurisdictional.

The Settlement accepts the adjustment as filed.

Rate Case Expense Adjustment – BHP proposed an adjustment to recover estimated rate case expenses incurred in this proceeding and also recover actual expenses incurred with previously conducted Integrated Resource Plan type analyses over a 5-year amortization period. The settlement reflects actual rate case expenses as of October 8, 2026, rejection of the inclusion of unrecovered Integrated Resource Plan amounts, and a 4-year amortization period to match the 4-year moratorium period. This additional adjustment decreases operating expenses approximately \$206,000, increases rate base by approximately \$213,000 and decreases the revenue deficiency by approximately \$186,000.

Fleet Depreciation Expense – BHP proposed on Schedule H-12 to annualize the depreciation expense on its fleet at the proposed depreciation rates. Fleet depreciation is recorded in a clearing account and allocated through the fleet loading process to O&M accounts, capital projects, and non-utility expense based on the use of the vehicles, and the Company's adjustment allocated the annualized depreciation to the O&M accounts in the same ratio as the fleet loadings, an increase of \$523,392 on a total company basis.¹⁶

Under the Settlement, the fleet depreciation adjustment follows the settlement depreciation rates and the settlement fleet plant balances, which produce a change in fleet depreciation of \$1,535,426 on a total company basis. Applying the Company's vehicle loading capitalization rate of 68 percent, \$1,046,077 is capitalized and \$489,349 is allocated to the O&M accounts in the ratio of the test year fleet loadings.¹⁷

The settlement reflects an adjustment to fleet depreciation charged to O&M of \$489,349 on a total company basis and \$453,975 South Dakota jurisdictional.¹⁸

The change from the Company's filed case reduces the South Dakota revenue deficiency by approximately \$31,000.

Regulatory Commission Expense – BHP proposed an adjustment to account for the increased SD gross receipts tax associated with the proposed revenue increase. The Company's model reflects this adjustment as an expense whereas Staff's model reflects the adjustment on the top sheet. Staff's model rejects this adjustment only for the purpose of showing the gross receipts tax adjustment on Staff Exhibit___(BAM-1) Schedule 1 instead of Exhibit___(BAM-1) Schedule 3. The net impact of the gross receipts tax adjustments is a reduction to the South Dakota revenue deficiency of approximately \$36,000 compared to the Company's filed case.

FERC Fees Expense – BHP proposed an adjustment to remove the per books FERC fees expense, as they are recovered through the Transmission Cost Adjustment. The settlement accepts this adjustment.

¹⁵ Mack Direct, Schedule H-10 discussion (Schedule H-10, lines 4, 9, and 11, column (d)); Stevens Direct.

¹⁶ Mack Direct, Schedule H-12 discussion (Schedule H-12, line 147, column (d)).

¹⁷ Staff Exhibit___(BAM-20), lines 150 through 153; Staff Exhibit___(BAM-16), line 21, column (i).

¹⁸ Staff Exhibit___(BAM-20), line 147, columns (c) and (f).

Steam Generation O&M Expense Adjustment – BHP proposed an adjustment to expenses relating to Black Hills Power’s steam generating facilities – Neil Simpson II, Wygen III, and Wyodak – to reflect changes to pro forma normal operating expenses. The primary drivers of the changes to test year expenses primarily due to non-recurring test year O&M activities removed. The adjustment is reflective of Black Hills Power’s 52% ownership share of Wygen II and 20% ownership share of Wyodak. The settlement reflects an updated year end September 2026 actual costs less non-recurring expenses which is more similar to where test year expenses were. The increase from the original request is primarily due to material costs for maintenance for Neil Simpson II increasing, inclusion of missing leases for WyGen III, and increases for Wyodak that BHP was allocated. This adjustment increases operating expenses and increases the revenue deficiency by approximately \$759,000.

Wind Generation O&M Expense Adjustment – BHP proposed an adjustment to normalize operating expenses for Corriedale based on estimated costs going forward excluding any adjustments for major maintenance expenses. The increase to test year O&M expenses is primarily attributable to the absence of the liquidated damages in the test year. BHP assumes going forward the vendor performance in accordance with contractual terms and as a result reflects the full contractual cost of maintenance services without offsetting credits. This adjustment is reflective of Black Hills Power’s 62% ownership share of Corriedale. The settlement reflects an updated year end September 2026 actual costs less non-recurring expenses. This adjustment decreases operating expenses and decreases the revenue deficiency by approximately \$105,000.

Other Generation O&M Expense Adjustment – BHP proposed an adjustment to expenses relating to Black Hills Power’s other generating facilities, including Ben French Units, Cheyenne Prairie, Lange I CT, and Neil Simpson CT, based on estimated costs going forward to reflect changes to pro forma normal operating expenses. It does not include the accrual for major maintenance expenses. The primary drivers of the decreases to test year expenses primarily due to non-recurring test year O&M activities and an estimated decrease to variable O&M for Cheyenne Prairie due to expected lower dispatch moving forward. The adjustment is reflective of Black Hills Power’s 58% ownership share of Cheyenne Prairie. The settlement reflects an updated year end September 2026 actual costs less non-recurring expenses. While still below the test year, rising costs and use of actuals cause the updates to be less than originally proposed. This adjustment increases operating expenses and the revenue deficiency by approximately \$456,000.

Generation Major Maintenance Expense – BHP proposed on Schedule H-18 a pro forma level of generation major maintenance expense and accrual of \$6,760,962, an increase of \$2,112,874 over the test year level of \$4,648,088 on a total company basis.¹⁹ The Company’s adjustment set the ongoing expense at estimated annual outage expenses and updated or established major maintenance accruals for the generating plants.²⁰ The Company records major maintenance costs as incurred in Accounts 512, 553, and 558 and records an accrual, which was \$434,448 in the test year, to a regulatory liability for major maintenance (Account 254010) with a test year balance of \$1,360,968.²¹

¹⁹ Attachment Staff 1.1bi, LJM WP-49, Schedule H-18, line 17, columns (c) through (e).

²⁰ Attachment Staff 1.1bi, LJM WP-49, Schedule H-18, Note (1).

²¹ Staff Exhibit____(RP-2), Schedule 1, column (b), lines 4 through 6 and 10; Staff Exhibit____(RP-3), line 13, per books column.

Staff's review of the Company's historical major maintenance data found that the proposed level exceeded the level supported by the Company's own cost experience.

Under the Settlement, major maintenance expense and accrual are normalized on an eight-period historical average by generating unit, consisting of the fiscal years ended September 30, 2019 through September 30, 2025 and actual costs through August 2026, as shown on Staff Exhibit ____ (RP-2), Schedule 2.²² The average excludes Ben French, which will be decommissioned in 2027,²³ and excludes \$840,000 of the 2025 Wygen III costs associated with the February 2025 generator failure, which the Company does not treat as a recurring event.²⁴ The settlement level consists of major maintenance expense of \$2,442,534 and a major maintenance accrual of \$645,008, computed under the Company's accrual methodology from the same eight periods, for a total of \$3,087,541 on a total company basis. The settlement level is \$1,560,547 below the test year level and \$3,673,421 below the level proposed by the Company.²⁵ The Settlement retains the major maintenance regulatory liability; the pro forma balance of \$1,571,528 (total company), which reflects the settlement accrual, remains in rate base as a deduction on Staff Exhibit ____ (RP-3).²⁶

The settlement adjustment reduces generation major maintenance expense and accrual by \$1,560,547 on a total company basis and \$1,340,970 South Dakota jurisdictional.²⁷

The change from the Company's filed case reduces the South Dakota revenue deficiency by approximately \$3,201,000. The settlement accrual increases rate base deductions for the major maintenance regulatory liability by \$186,573 South Dakota jurisdictional, which is included in the Other Rate Base Items line of Attachment A.²⁸

Gillette Energy Complex Shared Facilities – BHP proposed an adjustment to update its rent revenues and expenses for shared facilities at the Gillette Energy Complex in accordance with the Shared Facilities Agreement which allocates rent revenues and expenses to the parties based on net capacity of each company. Staff generally agreed with the adjustment but replaced the budgeted revenues and expenses used by BHP with actual revenues and expenses. The result of Staff's revisions increases the revenue requirement by approximately \$126,000.

Gillette Energy Complex Common Allocation – BHP proposed an adjustment to update costs for the operation and maintenance of the Gillette Energy Complex common steam facilities where BHP is responsible for costs relating to the capacity associated with Neil Simpson II and its ownership percentage of Wygen III. Staff generally agreed with the adjustment but replaced the budgeted costs used by BHP with actual costs. The result of Staff's revisions increases operating expense by approximately \$165,000.

²² Staff Exhibit ____ (RP-2), Schedule 2, columns (b) through (h); source data per Attachment Staff 1.1bi, LJM WP-49 (Steam, Gas, and Wind MM Adj tabs).

²³ Keil Direct, p. 19; Staff Exhibit ____ (RP-2), Schedule 2, sources note.

²⁴ Company response to Staff DR 12.16(b); Staff Exhibit ____ (RP-2), Schedule 2, line 15.

²⁵ Staff Exhibit ____ (RP-2), Schedule 1, column (c), lines 7, 13, and 19, and column (d), line 19; the \$3,673,421 is the difference between the \$6,760,962 proposed and the \$3,087,541 settlement level.

²⁶ Staff Exhibit ____ (RP-3), line 13, pro forma column.

²⁷ Staff Exhibit ____ (RP-2), Schedule 1, columns (d) and (g), line 19.

²⁸ Staff Exhibit ____ (RP-3), line 13, column (e).

Spare Turbine Removal and Spare Turbine Revenue Rider – BHP owns shared spare turbines that affiliate companies use when the turbines are not in use at BHP’s own generating facilities. BHP proposed to recover the spare turbine revenues and expenses outside of base rates through a new Spare Turbine Adjustment Rider (STAR), and accordingly removed spare turbine rent revenue of \$2,825,874 on Schedule I-10 and spare turbine expenses of \$1,785,952 on Schedule H-21, each on a total company basis.²⁹ The filed adjustments removed net revenues of approximately \$1.1 million South Dakota jurisdictional from base rates.³⁰

Under the Settlement, the rider is withdrawn, and the spare turbine revenues and expenses remain in base rates. The spare turbine revenues and costs are recurring items that were reflected in the test year at known levels, and a separate rider for a single revenue and cost item would add administrative complexity and transfer to customers variability that base rates are designed to absorb between rate cases. The settlement model states the revenues and expenses at the actual amounts for the twelve months ending September 30, 2026, which reduces other operating revenues by \$133,782 and production expense by \$62,245 from the test year amounts on a total company basis.³¹

The settlement reflects an adjustment to other operating revenues of \$(123,605) and production expense of \$(53,444) South Dakota jurisdictional, a net reduction in operating income before income taxes of \$70,161.³²

The change from the Company’s filed case, which removed the net revenues from base rates, reduces the South Dakota revenue deficiency by approximately \$986,000.

Generation Dispatch Power Marketing – BHP proposed to update the total generation and dispatch scheduling costs for the test period compared to the costs for the Pro Forma period which adjusts the total costs for the GDPM department for increases in labor costs. The adjustment included related increases in labor costs due to wage increases but also for additional labor positions. Under the settlement, the open labor positions were removed from the pro forma adjustment and the company updated test year GDPM expense to more recent actual expenses. This adjustment decreases the revenue deficiency by approximately \$103,000.

Vegetation Management Expense Adjustment – BHP proposed to adjust for a third-party contract increase which will occur beginning in 2026. As noted on H-23, BHP estimated that the increase in vegetation management costs would be 4.5%. This settlement reflects a 5-year average of vegetation management expenses over the years 2021-2025 to account for the volatility in the level of vegetation management done each year and did not reflect any estimated increases due to the volatility in any given year. This adjustment decreases operating expenses and the revenue deficiency by approximately \$206,000.

Demand Side Management Expense Adjustment – BHP proposed an adjustment to increase demand side management expense in order to restart a demand side management plan for customers. Prior to 2020 BHP had a formal Energy Efficiency Plan (“EE Plan”) with full recovery of program expenditures. In

²⁹ Mack Direct, Schedule H-21 and Schedule I-10 discussions (Schedule H-21, line 3, column (d); Schedule I-10, line 47, column (d)); Keil Direct.

³⁰ Staff Exhibit___(BAM-24), page 5 of 84, column (u)

³¹ Staff Exhibit___(RP-4)

³² Staff Exhibit___(BAM-1), Schedule 3, column (u), lines 3, 7, and 27.

2020, BHP filed an application to terminate the plan in Docket No. EL20-027. Since the termination of the formal EE Plan in 2020, BHP has continued to offer customers Energy Efficiency rebates with a total budget of \$200,000 a year. This budget has been at the cost of BHP with no recovery mechanism in which to collect these costs from customers. This settlement rejects the increase in demand side management expenses and removes the test year amount as well. Staff is not opposed to BHP requesting a demand side management plan for Commission review, but Staff prefers this be handled in a separate docket where the Commission can handle this policy decision individually and provide more feedback on the creation of a demand side management plan. This adjustment decreases operating expenses and the revenue deficiency by approximately \$492,000.

Economic Development Expense – BHP proposed an adjustment to increase the customer-paid portion of economic development expense from \$50,000 to \$90,000 on a South Dakota jurisdictional basis. The settlement rejects this adjustment, thereby decreasing jurisdictional operating expenses by approximately \$40,000.

Third party Line Locator Expense Adjustment – BHP proposed to adjust the per book test period expenses relating to third party line locates for an estimated increase in contractor costs. The issues related to the quality and timeliness of utility locates performed by its current contract locating provider necessitated reevaluating the line locating contractor. The settlement accepts actual third party line locator expenses through the end of September 2026. While Staff acknowledges that a new vendor is being used, any increases after September 2026 are not known and measurable at this time. This adjustment decreases operating expenses and the revenue deficiency by approximately \$288,000.

Customer Education Expense – BHP proposed an adjustment to increase the revenue requirement by \$125,000, on a totally company basis, to provide future funding for customer education for the federal Low-Income Home Energy Assistance Program (LIHEAP). The settlement rejects this adjustment, thereby decreasing jurisdictional operating expenses by approximately \$123,000.

Removal of CUS and DC Tie Adjustment – BHP proposed to remove expenses and revenues related to the Common Use System (CUS) and DC Tie. A portion of O&M expenses allocated to the CUS transmission formula rate and the DC Tie stated rate are removed from the overall O&M costs because they are recovered through the FERC ratemaking process. Removing FERC recovered items from base rates ensures that customers pay only for retail services and avoids double recovery by Black Hills Power. BHP also proposed to remove revenue relating to the CUS and DC Tie since it is generated through the FERC ratemaking process. Lastly, BHP proposed to remove the rate base components related to the CUS and DC Tie. The methodology in the calculation of those rates was applied to remove a portion of assets, accumulated reserve, CWC, prepaids, materials and supplies, and ADIT. This settlement generally accepted the concept of this adjustment. CWC was not included within each individual adjustment in this settlement and is therefore calculated with all adjustments in the CWC adjustment which is standard practice with the Commission. The other difference is the settlement incorporates the actual adjustments made in this case flow through the CUS and DC Tie adjustments. These adjustments increase operating expenses by approximately \$1,072,000, accepts the revenue adjustment portion, and decreases rate base by approximately \$1,363,000, and increases the revenue deficiency by approximately \$941,000.

Unbilled & Other Revenue Adjustment – BHP proposed an adjustment to remove unbilled electric and other revenues. Unbilled revenues represent revenue that is recorded during the per book Test Period

that is associated with activity outside of that period. In addition, this adjustment includes an adjustment for an atypical loss on material. The settlement accepts this adjustment.

ECA Revenue Adjustment – BHP proposed an adjustment to remove ECA revenues for base fuel and transmission costs included in retail revenue accounts, and power marketing revenues. These are removed as they are all recovered outside of base rates. The settlement accepts this adjustment.

Renewable Ready Adjustment – The settlement agreement in docket EL18-060 established a subscription level guarantee of \$2.32 million for the first 15 years of the Renewable Ready program, effectively establishing a revenue floor in subsequent rate cases. Test year revenues in this case exceeded this amount; however, BHP proposed adjustments to remove these amounts and replace them with the \$2.32 million established in EL18-060, effectively creating a revenue ceiling. The settlement rejects both proposed adjustments to maintain test year revenues for the Renewable Ready program. These rejections increase jurisdictional revenues by approximately \$747,000.

It should be noted that there is a reclassification of these revenues from Sales of Electricity Revenues to Other Operating Revenues on Staff Exhibit____(BAM-1), Schedule 3, but this does not have any impact on the revenue deficiency.

Demand Revenue Adjustment – BHP proposed an adjustment to normalize demand revenue between the test period and the pro forma period due to unexpected outages in the test period. This adjustment ensures revenues are consistent with a normal test year. The settlement accepts this adjustment.

Synchronization Billing Determinants –BHP proposed an adjustment to synchronize the revenues calculated using the billing determinants and the revenues from the accounting system for the 12-month period ending September 30, 2025. A synchronization adjustment accounts for the difference between per book test period revenues accounted for in the general ledger and the revenues that result from applying the current rates to the per book test period billing determinants. The settlement accepts this adjustment.

Weather Normalization – Staff had issues with the functional form of the statistical regression models the Company used to develop its weather-normalized sales and revenues. But the results obtained using Staff’s preferred functional form produced results that were not significantly (statistically) different than what was proposed, so Staff accepted the Company’s weather normalization adjustments for settlement purposes.

Incremental Growth – BHP proposed an adjustment to reflect anticipated customer growth is based upon the forecasted number of customers as of September 30, 2026. The settlement rejects this adjustment as it is a forecast and is not based on any known or actual changes. The effect of this rejection increases the revenue deficiency by approximately \$697,000.

BHP Shared Facilities – BHP owns BHC’s Horizon Point corporate headquarters in Rapid City, South Dakota, and receives rent revenue from BHC affiliate companies for its use. BHP claims this ownership structure allows BHC to realize annual tax savings of approximately \$470,000, or approximately \$80,000 as allocated to BHP. The Company proposed an adjustment to update per books rent revenue to an estimated pro forma rent revenue utilizing the rate of return as proposed by BHP. The settlement updates to actual rate base and expense amounts and utilizes the rate of return as agreed in settlement

(as discussed in the confidential rate of return section below). This revision decreases revenues by approximately \$328,000.

Depreciation Expense – BHP proposed on Statement J to apply the depreciation rates developed in the depreciation study prepared by Gannett Fleming and sponsored by Witness Spanos. The proposed depreciation rates were applied to the Company’s adjusted plant in service, including pro forma plant additions, pro forma retirements, and annualized per books plant in service. The Company also proposed a realignment of the accumulated depreciation reserve under Accounting Release 15 that creates an unrecovered reserve balance amortized over five years at \$677,096 per year, and the continuation of the allocated BHSC unrecovered reserve amortization of \$584,852 per year, which is scheduled to conclude in February 2030.³³ Accounting Release 15 is a FERC vintage year accounting method for high-volume, low-cost general plant assets, under which assets are retired systematically at the end of their depreciable life rather than tracked individually. The depreciation study recommends realigning the accumulated depreciation reserve balances of the accounts using that method to the balances calculated in the study, and the realignment creates a debit balance of unrecovered reserve that the Company proposes to amortize separately from the study.³⁴ The Company’s Statement J adjustments increased depreciation and amortization expense by approximately \$12.1 million South Dakota jurisdictional.³⁵

The proposed rates included a new Account 344.20 for generator rotatable parts at the Cheyenne Prairie Generating Station with a 14-year average service life and a 14.23 percent rate, and rates for the steam production plants that reflect decommissioning cost estimates containing a 9 percent contingency.³⁶ Staff’s analysis regarding these items is discussed below:

Rotable parts (Account 344.20). The manufacturer documentation produced in discovery addresses the life limits of individual engine components rather than an average service life in years for the account as a whole.³⁷ The Company provided additional information in response to Staff’s clarification requests of September 30, 2026, describing the basis on which the 14-year life was derived from the component cycle limits and the expected operating profile of the Cheyenne Prairie units. Rotable parts are replaced on a cycle-based schedule that is shorter than the life of the generating units in which they are installed, so a life shorter than the Account 344.10 generator life is supportable. The 14-year average service life and the 14.23 percent rate are within the range the additional information supports, and for purposes of settlement they are accepted.³⁸ Annual depreciation expense for the account at the settlement rate is \$8,358,258 on \$58,736,877 of plant, on a total company basis.³⁹

Steam production rates and decommissioning contingency. The Settlement applies the steam production depreciation rates reflected in Exhibit 2 to the Settlement, which are below the rates proposed in the depreciation study. Given the settlement rates are below those proposed, this eliminates Staff’s concerns regarding the contingency contained in the decommissioning cost estimates.

³³ Mack Direct, Statement J discussion (Statement J, lines 7 and 16).

³⁴ Mack Direct, at 51.

³⁵ Staff Exhibit___(BAM-24), page 6 of 84.

³⁶ Company responses to Staff DRs 8.10(c), 13.05(f) and (g), and 13.07; Exhibit JJS-2, p. 204.

³⁷ Company response to Staff DR 13.05(f).

³⁸ Email response dated October 3, 2026 from John Spanos to Staff’s September 30, 2026 clarification requests.

³⁹ Staff Exhibit___(BAM-19), Account 34420, columns (b) through (d).

The depreciation rates agreed to for settlement purposes are the same rates the Company settled on in Wyoming. Having consistent depreciation rates among all the Company's jurisdictions avoids additional administrative burdens for the Company. While consistency among jurisdictions is not a sole reason to adopt particular depreciation rates, Staff believes the end result of the settlement depreciation rates in this case is reasonable.

Regarding the Company's unrecovered reserve amortizations, the Settlement retains the \$677,096 annual amortization of the BHP unrecovered reserve created by the Accounting Release 15 realignment and the \$584,852 annual amortization of the BHSC unrecovered reserve. Staff verified the BHSC amortization through the Company's workpapers, and expects the Company to address its termination, as applicable, in February 2030 in its next general rate case.⁴⁰

Staff Exhibit___(BAM-16) summarizes the settlement depreciation and amortization expense adjustment. The settlement depreciation rates are applied to the pro forma plant additions, pro forma retirements, and HP Childcare adjustment. In addition, the settlement annualizes per book depreciation expense based on the settlement depreciation rates. Finally, the depreciation rates are also applied to the CUS and DC Tie plant removal amounts to determine the associated depreciation expense to be removed. The cumulative impact of these adjustments, including acceptance of the Company's unrecovered reserve amortizations results in an adjustment to depreciation and amortization expense of \$9,574,661 on a total company basis and \$8,612,831 South Dakota jurisdictional.⁴¹

The change from the Company's filed case reduces the South Dakota revenue deficiency by approximately \$3,371,000.

Interest Synchronization – BHP proposed an adjustment to synchronize the tax deduction for interest expense with the weighted cost of long-term debt and the adjusted test year rate base.⁴² The settlement properly reflects such an adjustment, modified to use the settlement *pro forma* rate base and the settlement weighted cost of long-term debt. The effect of these changes increases tax expense and the revenue deficiency by approximately \$95,000.

Tax Adjustments – BHP Statement K computes federal income tax on pro forma net operating income before tax, less synchronized interest expense, plus permanent differences, at the statutory rate, less the deferred tax adjustments for AFUDC regulatory asset amortization, tax credits, excess deferred income tax amortization, and the flow-through of tax repairs. The Company's adjustments removed permanent differences excluded from ratemaking (fines and penalties, club dues, lobbying, entertainment, the cash surrender value of life insurance, and captive insurance), removed the CUS and DC Tie amounts, and adjusted the plant-related temporary differences for the pro forma additions and retirements.

Staff's model separately calculates the income tax effect on each adjustment⁴³, separately calculates interest synchronization⁴⁴, separately identifies tax adjustments (including permanent differences,

⁴⁰ Staff Exhibit___(BAM-16), lines 7 and 16; Company workpaper WP-75; Attachment Staff 9.8a.

⁴¹ Staff Exhibit___(BAM-16), line 19, columns (i) and (l).

⁴² Statement K

⁴³ Staff Exhibit___(BAM-1), Schedule 3, line 22.

⁴⁴ Staff Exhibit___(BAM-1), Schedule 3, column (an).

temporary differences, and deferred tax adjustments)⁴⁵, and includes the CUS and DC Tie removal tax adjustments as part of the CUS and DC Tie removal adjustment⁴⁶.

Staff Exhibit___(BAM-12) provides the calculation of the tax adjustments with several temporary differences and deferred tax adjustments recomputed based on the flow-through of various settlement items. The resulting adjustment is an increase to current federal income tax of \$3,500,020 and a reduction to deferred income tax of \$5,611,235, South Dakota jurisdictional, a net reduction in income tax expense of \$2,111,215.⁴⁷ These updates increase the South Dakota revenue deficiency by approximately \$356,000 compared to the Company's filed case.

Taxes Other than Income – BHP's Statement L adjusted taxes other than income for the payroll taxes on its labor adjustments and for property taxes. The Company applied the FICA rate to the Schedule H-5 wage adjustment (\$187,943) and to the Schedule H-4 BHSC labor adjustment (\$268,555), added FUTA and SUTA for the additional headcount (\$336 and \$144), removed an out-of-period property tax true-up (\$226,923), and adjusted property tax for the pro forma plant additions.⁴⁸

Under the Settlement, the payroll tax adjustments follow the settlement labor levels: FICA on the direct payroll adjustment is \$130,761 on a total company basis and \$115,865 South Dakota jurisdictional, FICA on the allocated BHSC payroll adjustment is a reduction of \$32,301 on a total company basis and \$28,621 South Dakota jurisdictional, and no FUTA or SUTA adjustment is made because the Settlement adds no headcount.⁴⁹ The property tax adjustment applies the combined South Dakota and Wyoming property tax to gross plant factor (revised based on actuals) to the settlement capital additions (\$276,298) and retains the out-of-period adjustment (\$226,923), for a total of \$503,221 on a total company basis and \$447,173 South Dakota jurisdictional.⁵⁰

The settlement adjustment increases taxes other than income by \$422,189 South Dakota jurisdictional, consisting of FICA of \$115,865, allocated FICA of (\$28,621), and property tax of \$447,173.⁵¹

The change from the Company's filed case reduces the South Dakota revenue deficiency by approximately \$413,000.

Miscellaneous Other Power Generation Expense – During discovery, the Company agreed to the removal of certain miscellaneous other power generation expenses that related to expenses identified by BHP as one-time capital write-off expense and non-recurring pipeline inspection costs. This removal decreases operating expenses by approximately \$80,000.

Severance Expense – BHP's test year expenses included \$196,572 of severance payments on a total company basis. In response to Staff's request for the detail of these payments, the Company did not itemize them, and the record therefore does not establish that the test year amount represents a

⁴⁵ Staff Exhibit___(BAM-1), Schedule 3, column (ao).

⁴⁶ Staff Exhibit___(BAM-1), Schedule 3, columns (ab) and (ac).

⁴⁷ Staff Exhibit___(BAM-12), pages 1 and 2; Staff Exhibit___(BAM-1), Schedule 3, column (ao), lines 22, 23, and 25.

⁴⁸ Mack Direct, Statement L discussion (Schedule L-1, lines 4, 9, 16, and 26; Statement L, line 30).

⁴⁹ Staff Exhibit___(BAM-11), lines 1 through 14.

⁵⁰ Staff Exhibit___(BAM-11), lines 15 through 30.

⁵¹ Staff Exhibit___(BAM-1), Schedule 3, column (ap), lines 16, 20, 24, and 25.

recurring level of expense.⁵² Under the Settlement, the severance expense is removed from the revenue requirement in full.⁵³

The settlement adjustment reduces administrative and general expense by \$196,572 on a total company basis and \$174,179 South Dakota jurisdictional.⁵⁴

The change from the Company's filed case reduces the South Dakota revenue deficiency by approximately \$176,000.

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[REDACTED]

[REDACTED]

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HP Childcare Removal – The Company has a childcare center for employees located in its Horizon Point headquarters. Black Hills Power owns the building and some equipment and subsidizes a portion of the childcare center costs.⁵⁸ While a convenient benefit for employees, Staff does not agree customers should pay for the subsidy as it is not a necessary cost of providing electrical service. This adjustment removes all costs associated with the Horizon Point Childcare Center included in the *pro forma* test year. The effect of this adjustment reduces rate base by approximately \$1,257,00, reduces operation and maintenance expenses by approximately \$123,000, reduces depreciation expense by approximately \$36,000, and reduces revenues by approximately \$237,000, for a net reduction to the revenue deficiency of approximately \$8,000. The impact of this adjustment on depreciation expense is included in the cumulative impact discussed under Depreciation and Amortization Expense.

⁵² Company response to Staff DR 12.19.

⁵³ Staff Exhibit___(BAM-1), Schedule 3, column (at), line 12.

⁵⁴ Staff Exhibit___(BAM-1), Schedule 3, column (at), line 12.

⁵⁵ Company response to Staff DR 12.8; Mack Direct, Schedule H-4 and Schedule H-5 discussions.

⁵⁶ Staff Exhibit___(BAM-25), Schedule 1, page 7

⁵⁷ Staff Exhibit___(BAM-25), Schedule 1, page 7

⁵⁸ BHP Response to Staff DR 15.15

HomeServe Revenues and Expenses – HomeServe is an independent company, separate from BHP, that has a contractual relationship with BHP to offer its optional service plans to BHP’s customers. This relationship results in administrative costs for BHP as well as revenue from HomeServe reimbursing these administrative costs and paying BHP a commission on plan fees. BHP’s test year did not include any revenue or expense associated with its relationship with HomeServe, as these items have historically been recorded below the line. The settlement reflects a 50/50 sharing of the revenue and expense. This adjustment decreases the revenue requirement by approximately \$64,000.

Pro Forma Plant Additions – BHP proposed an adjustment to reflect the estimated post-test year plant additions anticipated to be in-service by September 30, 2026. The settlement revises this adjustment to reflect actual known plant additions in-service by August 31, 2026 with the following adjustments: 1) removal of all growth-related projects⁵⁹, 2) exclusion of the Horizon Point Childcare playground project, and 3) reduction to the Neil Simpson II Dual Fuel Conversion project amount⁶⁰. The impact of this adjustment reduces rate base by approximately \$18,336,000 and reduces the revenue deficiency by approximately \$1,759,000. This adjustment also impacts other components of the revenue requirement including depreciation, accumulated depreciation, and property taxes. The impact to these other items of the revenue requirement are included in the cumulative impact discussed under those adjustments.

Pro Forma Plant Retirements – BHP proposed an adjustment to reflect the expected plant retirements to occur through September 30, 2026. The settlement revises this adjustment to reflect the actual known plant retirements through August 31, 2026. The impact of this adjustment reduces rate base by approximately \$3,333,000 and reduces the revenue deficiency by approximately \$320,000. This adjustment also impacts other components of the revenue requirement including depreciation, accumulated depreciation, and property taxes. The impact to these other items of the revenue requirement are included in the cumulative impact discussed under those adjustments.

Existing Assets Accumulated Depreciation – BHP proposed an adjustment to roll forward the accumulated depreciation associated with plant in service as of September 30, 2025, to reflect the balance as of September 30, 2026. The settlement accepts this adjustment.

Other Working Capital – The settlement reflects a more recent year ending June 2026 13-month average for materials and supplies, fuel inventory, and prepayments. This adjustment increases rate base by approximately \$1,071,000 and increases the revenue deficiency by approximately \$103,000.

Cash Working Capital/Tax Collections Available – BHP’s proposed rate base included an allowance for cash working capital based on a lead-lag analysis. A lead-lag analysis examines the timing of the Company’s receipt of service revenues from customers in relation to the Company’s payment of expenses to vendors and employees. The Company’s cash working capital allowance also included a rate base deduction for tax collections which the Company receives in advance of turning the related payments over to the taxing authorities. Staff carefully examined BHP’s revenue lag and expense lead day determinations and made the following modifications, which are consistent with Staff adjustments in prior rate cases:

1. Revised the expense lead days for federal income tax and sales tax;

⁵⁹ Growth-related projects increase revenues and therefore would upset the matching principle if included.

⁶⁰ Refer to the Neil Simpson II Conversion section under “Staff Analysis of Relevant Resource Decisions”.

2. Included separate lead days for vacation pay, incentive compensation, depreciation, gross receipts tax, interest on long term debt, and deferred federal income tax;
3. Remove Franchise Taxes due to those being Wyoming specific taxes;
4. Revised revenue lag days to remain consistent with past Staff practice and state statute, and to more accurately reflect the South Dakota jurisdictional revenue lag; and
5. Revised expenses per day to incorporate into the lead-lag analysis the impacts of Staff's recommended adjustments to pro forma operating expenses.

These modifications decrease rate base by approximately \$2,977,000 and decreases deficiency by approximately \$285,000.

Late Payment – Staff proposed an adjustment that eliminates test year late payment revenue in lieu of using actual payment collection days in the cash working capital calculation, where, per statute, a 20-day period is used. The cash working capital adjustment does not account for late payments, only on time payments. Therefore, it is appropriate for BHP to retain the late payment fees collected in the test year and to not include them in the revenue requirement. This is consistent with past ratemaking treatment. This adjustment decreases test year revenues approximately \$290,000 and increases the revenue deficiency by approximately \$290,000.

Other Rate Base Items – BHP proposed on Schedules M-2 and M-3 to adjust the other rate base items (customer advances, regulatory assets and liabilities, deferred income tax assets, excess deferred income tax regulatory liabilities, accumulated deferred income taxes, and BHSC allocated plant ADIT) from test year average balances to projected balances at the end of the pro forma period.

Under the Settlement, the other rate base items are stated at the balances reflected in the Company's settlement model, which the Company updated so that plant, accumulated depreciation, and accumulated deferred income taxes are each measured on actual balances through the same date, subject to the Company's tax review of the settlement changes. The major maintenance regulatory liability (Account 254010) is stated at its pro forma balance of \$1,571,528 (total company), which reflects the settlement accrual described under Generation Major Maintenance Expense above.⁶¹

The settlement adjustment reduces total deductions to rate base by \$3,585,712 on a total company basis and \$3,375,233 South Dakota jurisdictional, consisting of a \$1,711,522 reduction in customer advances, a \$210,560 increase in the major maintenance regulatory liability, a \$2,040,928 net reduction in deferred income tax items, and a \$43,822 reduction in BHSC allocated plant ADIT (total company).⁶²

The change from the Company's filed case increases the South Dakota revenue deficiency by approximately \$1,159,000.

Jurisdictional Allocation Factors – BHP's Statement N allocates production rate base and production expenses among its jurisdictions with the Demand Production (12 CP) allocator, DPROD, which assigns 87.146 percent of production costs to South Dakota.⁶³ Mr. Hyatt testified that the jurisdictional allocation methodologies are consistent with Docket EL14-026, where the production demand allocator

⁶¹ Staff Exhibit___(RP-3), line 13, pro forma column; Staff Exhibit___(RP-2), Schedule 1, column (d), line 13.

⁶² Staff Exhibit___(RP-3), column (b), lines 2, 13, 74, 76, and 78, and column (e), line 78.

⁶³ Statement N, Schedule AF, Allocation Factor Table, p. 21 (346.2 MW total company, 301.7 MW South Dakota).

was the average of the twelve monthly jurisdictional coincident peaks and assigned 89.831 percent to South Dakota.⁶⁴

Per review of the Company's workpapers, Staff found that the filed allocator was not calculated on the correct basis. Exhibit DNH-4, page 3, line 20, reports South Dakota's single highest monthly coincident peak (August 2025) in the column headed "12 CP," and the total is the sum of each jurisdiction's highest month, which fall in different months; the same exhibit reports the twelve-month average allocation of 86.1 percent on page 1.⁶⁵ The Company confirmed in discovery that the August 2025 column was inadvertently used, that the filed 87.146 percent was calculated on the maximum coincident peak rather than the average, and that the correction reduces the South Dakota revenue requirement in the Company's filed case by approximately \$1.3 million.⁶⁶ The Settlement also reflects the Company's correction of the meter allocator, which the filed Statement N carried unchanged from Docket EL14-026, and the incorporation of the transmission and distribution demand losses omitted from the filed Demand Allocation Model.⁶⁷

Under the Settlement, the production demand allocator is the average of the twelve monthly jurisdictional coincident peaks, consistent with the Company's filing and the approach used in Docket EL14-026. The Settlement also updates jurisdictional allocation factors generated within the Company's jurisdictional model resulting from changes made to other elements of BHP's revenue requirement as part of the settlement. The final production demand allocator assigns 85.86 percent⁶⁸ of production costs to South Dakota. Several other allocation factors were updated as a result of changes made to other elements of BHP's revenue requirement, but the correction regarding the production demand allocator is the most significant item impacting the jurisdictional revenue requirement. Staff estimates the impact of this correction on the settlement South Dakota revenue requirement is a reduction of over \$900,000. In total, the changes in allocation factors reduces the settlement South Dakota revenue requirement by approximately \$1,456,000⁶⁹.

STAFF ANALYSIS OF RELEVANT RESOURCE DECISIONS

Neil Simpson II Conversion – The Company's 2021 Integrated Resource Plan (IRP) identified conversion of Neil Simpson II (NSII) from coal to natural gas, estimated at \$9.06 million (2021 dollars), as the preferred option. The Company instead retained the unit's coal capability and added natural-gas firing, placing the dual-fuel unit in service on October 31, 2025.

Staff found that the dual-fuel capability likely provides real value to customers. On natural gas, the unit's minimum output falls from 55 MW to 25 MW, allowing it to stay online at low output when market energy is inexpensive rather than cycling off. Gas firing can keep the unit available during coal-equipment problems such as pulverizer maintenance or scrubber upsets. Fuel flexibility also allows the Company to dispatch on the lower-cost fuel and reduces the unit's exposure to future environmental

⁶⁴ Hyatt Direct, p. 7, lines 1 through 4; Company response to Staff DR 9.02(a).

⁶⁵ Exhibit DNH-4, p. 1, line 17, and p. 3, lines 19 through 22. Staff's recalculation of the twelve-month average from the page 3 monthly data produces 86.10 percent (248,050 kW of 288,108 kW).

⁶⁶ Company responses to Staff DRs 9.01(a) and (c) and 9.02(c) and (f); Amended Exhibit DNH-4, Demand Allocation Model with Losses, p. 3, line 20.

⁶⁷ Company responses to Staff DRs 9.03(a) and (b) and 14.02.

⁶⁸ Staff Exhibit__ (BAM-3) Schedule 1 and Schedule 2

⁶⁹ Attachment A.

requirements. The issue is not whether the conversion adds value, but that the Company has not yet quantified it. The IRP's economics depended largely on retiring the coal systems that the dual-fuel project retains, and the Company did not perform a financial analysis comparing the dual-fuel conversion with continued coal-only operation.

For settlement purposes, the Parties agreed to include in rate base the IRP estimate escalated for inflation, \$10.72 million (total company), and to exclude the remaining \$2.24 million without a finding on prudence. The Company may seek recovery of the excluded amount in a future proceeding, supported by a financial analysis comparing the dual-fuel conversion with coal-only operation based on the information known when it executed the major contracts for the conversion. Staff believes this treatment is reasonable. It allows recovery of the cost of the option the Company studied, while providing the Company the opportunity to demonstrate the full value of the investment with necessary supporting analysis.

STAFF ANALYSIS OF BA/REAL-TIME PRICING PARTICIPATION DECISIONS

When WAPA joined SPP's RTO West expansion on April 1, 2026, it stopped providing balancing authority (BA) services to BHP, and SPP ended the Western Energy Imbalance Service market BHP had used since 2023. BHP had to replace both. It chose to operate its own BA, which also serves Cheyenne Light, Fuel and Power and several other utilities formerly in WAPA's BA, and to join the Western Energy Imbalance Market (WEIM), which it entered on May 6, 2026. Staff finds that this choice was reasonable and, on the information available when BHP had to commit, preferable to joining SPP RTO West.

Full RTO membership can offer benefits that a real-time market alone does not, including a day-ahead market, regional transmission planning, and shared resource adequacy. The question is whether those benefits, and their costs, were available on known terms when BHP had to decide. They were not. BHP had to commit well before the launch, and at that point the terms that most affect its customers' costs were undefined: the resource adequacy construct and planning reserve margin, transmission pricing zones, and the treatment of the constrained Wyoming–Colorado transmission path under SPP's flow-based methodology. The reserve margin matters most. For a small system like BHP's, it determines how much capacity customers must pay for, and SPP did not issue its RTO West reserve margin recommendation until December 2025. The initial RTO West footprint is also small, which limits the resource diversity and market depth that produce RTO savings. Joining on those terms would have committed customers to capacity and transmission costs BHP could not estimate, and leaving an RTO after joining is costly.

Short of joining the RTO, BHP did not find a provider able and willing to take on its BA service before WAPA's service ended: SPP offered BA service only to full RTO members, and PacifiCorp could not integrate BHP in time. Operating its own BA was the remaining option that did not require RTO membership. Paired with WEIM, it allows BHP to capture near-term market value without taking on undefined RTO obligations. BHP is directly interconnected with PacifiCorp, an existing WEIM participant, estimates net customer benefits of \$1 million to \$3 million per year, and is not required to become a CAISO member or join a day-ahead market. SPP Markets+ was not scheduled to operate in time and will not be optimized with RTO West at launch. Staff also found the Company's staffing for the new BA and WEIM functions reasonable and not excessive.

This path does not foreclose RTO membership. As SPP RTO West's terms, reserve requirements, and footprint become clearer, Staff encourages BHP to consider whether RTO participation or another day-ahead market option would benefit customers.

CAPITAL STRUCTURE AND RATE OF RETURN

The Company's initial filing Statement G reflected an overall requested rate of return (ROR) of 8.16 percent, based upon a capital structure of 53.21 percent equity, 46.79 percent common equity, an embedded debt cost calculation of 5.50 percent, and a requested rate of return on equity (ROE) of 10.50 percent. The capital structure was pro forma for the period ending September 30, 2026, based on 13-month averages. Staff policy and Commission precedent is to use period-ending capital balances for the capital structure, not 13-month averages. In response to Staff Data Requests 1-11 and 1-12, the Company submitted an updated Statement G using period-ending capital balances, adjusted for known and measurable changes (retired debt, new debt, and updated equity), resulting in a capital structure of 53.04 percent equity and 46.96 percent long-term debt with an embedded debt cost of 5.48 percent.

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[Redacted] [End Confidential] resulting in an overall rate of return of 7.58 percent. The reduction in the overall rate of return reduces the revenue deficiency by approximately \$6,092,000.

REVENUE DEFICIENCY

Staff Exhibit___(BAM-1), Schedule 1 calculates the South Dakota net revenue deficiency, including gross receipts tax, as \$27,353,773.

RATE DESIGN ISSUES

The Parties agree in principle on all issues regarding rate design and the class revenue distribution. The settlement position reached between the Parties is discussed below.

Class Cost of Service/Spread of the Increase – The Parties have agreed on the allocation of the settlement revenue increase among the customer classes. In its filed case, the Company presented a class cost of service study (CCOSS) sponsored by Witness Hyatt and a class revenue apportionment that moved each class partially toward its indicated cost of service. SDLCG presented an alternative class cost of service study that differed from the Company's study in several respects, including the treatment of

the Corriedale wind generation costs, and produced materially different results for several classes. Staff reviewed both studies and the Company's responses to Staff's discovery on the allocators used in the Company's study. The settlement allocation is a negotiated outcome informed by both studies. It does not adopt a particular study or any allocation methodology, and the Parties' agreement on class revenue responsibility is for purposes of settlement only.

The settlement allocation provides a base rate increase to every class and limits the dispersion of class increases around the system average. Measured on total bills, including the ECA, the system average increase is 13.60 percent, and the class increases range from 11.0 percent to 17.0 percent, so that no class receives a total bill increase greater than approximately 1.25 times the system average. The Residential Regular Service class, the largest class, receives a total bill increase of 16.4 percent. The settlement increase by rate schedule is summarized below.

Rate Schedule	Base Rate Revenue at Present Rates	Settlement Increase	Increase in Base Rate Revenue	Increase in Total Bill
Residential: Regular Service	\$41,227,499	\$9,707,578	23.55%	16.38%
Residential: Total Electric Service	7,960,582	2,132,150	26.78%	17.03%
Residential: Demand Service	5,795,561	1,615,899	27.88%	17.01%
Small General Service	15,220,331	2,294,639	15.08%	11.00%
General Service	23,679,351	4,050,683	17.11%	11.30%
General Service: Total Electric Service	2,873,542	581,607	20.24%	13.18%
General Service: Energy Storage Service	615,789	204,017	33.13%	17.03%
Large General Service: Secondary	17,523,065	3,304,682	18.86%	11.01%
Large General Service: Primary	2,232,813	449,797	20.14%	11.00%
Large General Service: 69 kV	1,251,063	259,056	20.71%	11.02%
Industrial Contract Service: Primary (Forest Products Service)	3,305,667	940,272	28.44%	14.23%
Industrial Contract Service: 69 kV	4,033,908	1,151,860	28.55%	11.93%
Water Pumping and Irrigation	1,443,232	365,321	25.31%	14.70%
Lighting: Traffic Signals and Flashers	60,692	15,940	26.26%	17.03%
Lighting: Private Area Lights	426,483	99,414	23.31%	17.03%
Lighting: Street Lighting, Leased (Company Owned)	571,504	77,565	13.57%	10.93%
Lighting: Street Lighting, Customer Owned	289,061	98,470	34.07%	17.20%
Lighting: Non-Metered Services	43,801	4,821	11.01%	11.01%
Total South Dakota	\$128,553,943	\$27,353,773	21.28%	13.62%

The resulting allocation of the settlement revenue requirement among the customer classes is reflected in Staff Exhibit ____ (JMR-2), Schedule 2. The allocation maintains a reasonable relationship between class cost responsibility and class revenue assignment while limiting the increase to any class to a level consistent with rate continuity and gradualism.

Power Factor Adjustment – BHP's rate schedules billed on kW demand include a Power Factor Adjustment that increases billing capacity when a customer's power factor falls below 85 percent, to encourage customers to correct reactive load behind the meter. The current tariff defines power factor on an energy basis, as kilowatt-hours divided by the square root of the sum of the squares of kilowatt-hours and lagging reactive kilovolt-ampere-hours for the month.⁷⁰ BHP proposes to retain the 85 percent threshold and the billing capacity gross-up, but to define power factor on a demand basis, as

⁷⁰BHP current tariff, Power Factor Adjustment, Sheet No. 8.

maximum kW divided by kVA, where kVA is the square root of the sum of the squares of the maximum kW and the maximum kVAR measured during the billing period. The proposed tariff sets the charge at zero, with the demand-based adjustment to take effect in the future subject to Commission approval.⁷¹ Mr. Pogany testified that the existing formula does not accomplish that purpose and that the charge is set at zero until all meters are capable of reading kVAR.⁷²

The current definition, when determined by permanent metering, is a monthly average, so a customer's power factor at the time of its peak demand is diluted by its power factor during the rest of the month, and a customer can pass the 85 percent test on average while operating well below it at peak. The proposed definition is computed from the maximum kW and the maximum kVAR measured during the billing period rather than from monthly energy totals, which ties the adjustment to the customer's demand, the quantity the adjustment is applied to and the period when reactive load occupies transformer and conductor capacity. Staff agrees that a demand-based definition better matches the adjustment to the cost that reactive power imposes on the system.

Staff reviewed the current and proposed tariff language and the supporting testimony and does not oppose the change. Customers whose billing capacity is currently increased by the adjustment will no longer be billed for it, and no customer will be billed under the demand-based adjustment until the Commission approves it. Under the Settlement, BHP's proposed Power Factor Adjustment language is adopted as filed.

Rate Design – The settlement rates for each rate schedule are shown on Staff Exhibit__ (JMR-2) Schedule 2-1 through Exhibit__ (JMR-2) Schedule 2-7. For the General Service, Large General Service, Industrial Contract Service, Forest Products Service, and Water Pumping schedules, the settlement rates apply each class's settlement base rate increase uniformly to the existing customer, energy, and capacity charges, so that the existing rate structures and the relationships among the rate components are preserved.⁷³ For Residential Regular Service, the Settlement increases the monthly customer charge from \$12.00 to \$12.75 (6.3 percent) and the energy charge from \$0.08827 to \$0.11218 per kWh, with the energy charge set to recover the remainder of the class settlement revenue. The customer charges for Residential Total Electric Service (\$15.00) and Residential Demand Service (\$17.00) are unchanged; the Total Electric energy charge increases from \$0.06693 to \$0.08870 per kWh, and the Demand Service energy and demand charges increase from \$0.0208 to \$0.02752 per kWh and from \$7.90 to \$10.45 per kW.⁷⁴ For Small General Service, the Settlement increases the customer charge from \$15.00 to \$15.50 and utilizes a single energy charge of \$0.13293 per kWh applicable to all kWh.⁷⁵ For General Service, the customer charge increases from \$15.00 to \$17.57, and the energy and capacity charges increase by the same percentage.⁷⁶ The Lighting schedules are increased to recover each lighting class's settlement revenue.⁷⁷

⁷¹BHP proposed tariff, Power Factor Adjustment, Sheet No. 13; Hyatt Direct, p. 4, lines 7 through 10.

⁷²Pogany Direct, p. 25, lines 7 through 9, and p. 26, lines 8 through 14.

⁷⁴ Exhibit__ (JMR-2) Schedule 2-1.

⁷⁵ Exhibit__ (JMR-2) Schedule 2-2.

⁷⁶ Exhibit__ (JMR-2) Schedule 2-2.

⁷⁷ Exhibit__ (JMR-2) Schedule 2-7.

OTHER ISSUES

Deferred Accounting Decommissioning – Ben French – BHP requested deferred accounting treatment for future costs associated with the decommissioning of the Ben French generating units. The Ben French units are forecasted to be decommissioned, demolished, and remediated in 2027. Authorizing deferred accounting will allow BHP to record and preserve the decommissioning costs in a regulatory asset in order to seek cost recovery in a future docket. BHP acknowledges that approval of deferred accounting does not constitute approval of prudence or recovery of costs.⁷⁸ Upon commencement of decommissioning, the Company will also transfer the net book value of the Ben French Units to the regulatory asset. The settlement accepts the Company's requested deferred accounting treatment.

Since the Ben French Units are currently in-service, it is appropriate for the costs associated with these units to be included in the revenue requirement up until they are no longer in-service. However, since the net book value will be transfer to the regulatory asset for possible future recovery, Staff feels its important to ensure no double recovery of these costs occur. Therefore, the settlement includes a provision that BHP will begin crediting the Phase in Plan Rate (PIPR) on a monthly basis with the monthly revenue requirement associated with those assets included in base rates. Since the Commission has not yet made a decision on the PIPR docket, the settlement also provides that in the event the PIPR is not approved, BHP shall credit the decommissioning regulatory asset with the revenue requirement included in base rates associated with those assets.

ECA Changes – Black Hills Power proposes to reset the base fuel and purchased power costs, property tax, and South Dakota contract sales in this docket. As a part of this settlement, the minimum \$1,000,000 Power Marketing Operating Income (PMOI) Credit will be removed from the tariff. BHP will continue to share 70% of PMOI in the form of a credit to the ECA as it currently does. BHP is proposing to also change the annual calculation period from April through March to January through December. This will change the filing date from May 10, with an effective date of June 1, to an annual filing date of March 1, with an effective date of April 1.

TCA Changes – BHP is proposing to change the annual calculation period from April through March to January through December. This will change the filing date from May 10 to an annual filing on March 1, with an effective date of April 1. The creation of a Black Hills Power operated BA will require new FERC tariffs. The rates for the new FERC tariffs are calculated using assets and costs that are also included in the base rates in this docket. To avoid the potential for over recovery of these costs and assets, the company will pass through all revenue associated with the BA FERC tariffs as a credit to the annual TCA calculation.

Line Loss Studies – BHP engaged RMS Energy Co. LLC to perform a transmission line loss study of its 230 kV system and a distribution line loss study of its 69 kV sub-transmission and distribution system.⁷⁹ The studies assign total system losses of 2.61 percent to service at 69 kV, 3.83 percent to service at primary voltage, and 5.04 percent to service at secondary voltage.⁸⁰ The loss factors are inputs to the class cost of service study, where class energy is stated at the production source and transmission and distribution

⁷⁸ Jason Keil Testimony, page 19

⁷⁹Pogany Direct, p. 26, line 16 through p. 27, line 20; Exhibit MAP-4, Transmission Line Loss Study; Exhibit MAP-5, Distribution Line Loss Study.

⁸⁰Pogany Direct, p. 28, lines 1 through 6, and Table MAP-10.

losses are added to hourly class demand.⁸¹ The filed Demand Allocation Model omitted transmission and distribution demand losses, which BHP corrected in discovery.⁸² Staff reviewed the studies and proposes no adjustment to the loss factors, and the Settlement incorporates the corrected Demand Allocation Model.

Deferred Accounting Treatment of Insurance Expense – The Company requested authority to defer the difference between the insurance expense reflected in base rates and the insurance expense incurred in future periods for consideration in a subsequent proceeding. Staff did not support the request for the reasons discussed under Intercompany Allocated Charges From BHSC Expense above. Under the Settlement, the Company withdraws the request, and insurance expense is reflected in base rates at the annualized level of the July 2026 renewal premiums.

Rate Moratorium – The Parties agree that BHP shall not file any rate application for an increase in base rates which would go into effect prior to August 18, 2030.

Implementation of Rates – The tariffs shown on Exhibit 1 attached to the Settlement are proposed to be implemented for service rendered on or after December 1, 2026. Customer bills will be prorated so that usage prior to that date is billed at the interim rates and usage on and after that date is billed at the new rates.

Interim Rate Refund – Interim rates were implemented on August 18, 2026. Approval of the Settlement will authorize a rate increase less than the interim rate level. The Company agreed to refund customers the difference between interim rates and new rates collected, during the period August 18 through December 1, 2026. As part of the refund, BHP will include interest, calculated by applying 7% annual interest to the average refund balance for each month that interim revenues were collected. Attached to the Settlement as Exhibit 4 is the Company's Interim Refund Plan.

RECOMMENDATION

The Commission is the state entity that has been tasked by the legislature under SDCL Chapter 49-34A, to regulate utility companies in the state. This regulation includes determining just and reasonable rates under SDCL 49-34A-6, for BHP and the other five investor-owned utility companies providing electric service in the state. The Commission is also required under SDCL 49-34A-8 to “give due consideration to the public need for adequate, efficient, economical, and reasonable service and to the need of the public utility for revenues sufficient to enable it to meet its total current cost of furnishing such service, including taxes and interest, and including adequate provision for depreciation of its utility property used and necessary in rendering service to the public, and to earn a fair and reasonable return upon the value of its property.”

After reviewing the filing, Staff believes the settlement finds a balance between providing BHP with an increase they are eligible for under the law in order to provide safe and reliable electric service, along with a reasonable profit and ensures customers are not being charged unfair or excessive rates.

Staff recommends the Commission approve the settlement for the reasons stated in this memo.

⁸¹Hyatt Direct, p. 10, lines 14 through 18, and p. 21, lines 20 through 21.

⁸²Company responses to Staff DRs 9.03(a) and (b) and 14.02; Company responses to SDLCG DRs 6.4 and 6.7.