

Direct Testimony  
Jerrad S. Hammer

Before the South Dakota Public Utilities Commission  
of the State of South Dakota

In the Matter of the Application of  
Black Hills Power, Inc. d/b/a Black Hills Energy

for Authority to Increase Rates for Electric Service in South Dakota

Docket No. EL26-\_\_\_\_\_

February 19, 2026

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**TABLE OF ABBREVIATIONS AND ACRONYMS**

2014 Rate Review Proceeding	Black Hills Power Rate Review Proceeding Docket No. EL14-026
BA	Balancing Authority
BHC	Black Hills Corporation
BHSC	Black Hills Service Company, LLC
Black Hills Power	Black Hills Power, Inc. d/b/a Black Hills Energy
CCOSS	Class Cost of Service Study
COSS	Cost of Service Study
Corriedale	Corriedale Wind Farm
CUS	Common Use System
ECA	Energy Cost Adjustment
IRP	Integrated Resource Plan
JCOSS	Jurisdictional Cost of Service Study
<i>Pro Forma</i> Period	The twelve (12) months ending on September 30, 2026 adjusted for known and measurable changes
STAR	Spare Turbine Adjustment Rider
Test Period	The twelve (12) months ended September 30, 2025
WACC	Weighted Average Cost of Capital
WEIM	Western Energy Imbalance Market

1                                   **I. INTRODUCTION AND QUALIFICATIONS**

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

3   A. My name is Jerrad S. Hammer. My business address is 7001 Mount Rushmore Road,  
4       Rapid City, South Dakota 57702.

5   **Q. PLEASE DESCRIBE YOUR EMPLOYMENT.**

6   A. I am employed by Black Hills Service Company (“BHSC”), a wholly owned subsidiary  
7       of Black Hills Corporation (“BHC”). I am currently employed as a Director of  
8       Regulatory responsible for providing analytical and strategic business direction for  
9       BHC’s electric generation, transmission and distribution assets of Black Hills Power, Inc.  
10      d/b/a Black Hills Energy (“Black Hills Power”) in the jurisdictions of South Dakota,  
11      Montana, and Wyoming.

12   **Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS BACKGROUND.**

13   A. Prior to working at BHC, I held various positions of increasing responsibility at  
14      SourceGas, which was acquired by BHC in 2016. Prior to SourceGas, I was a Senior  
15      Associate at Black & Veatch Corporation from January 2002 through February 2007.  
16      While at Black & Veatch, I was responsible for the preparation of numerous studies for  
17      natural gas and electric utilities. Clients served included investor-owned utilities,  
18      publicly owned utilities and their customers. The studies involved cost of service, cost  
19      allocation, rate design, supply analysis, load forecasting, cost recovery mechanisms, and  
20      other economic matters.

21                I began my employment at SourceGas as a Senior Analyst. In August 2008, I was  
22      promoted to Manager - Regulatory. In January 2012, I was promoted to Senior Manager  
23      - Regulatory. In September 2013, I was promoted to Director - Rates and Regulatory.

1           When SourceGas was acquired by BHC in 2016 I became the Director of  
2           Regulatory and Finance for Wyoming and South Dakota. In 2021, I took a role as  
3           Director of Corporate Development. In November of 2023, I returned to my role as  
4           Director of Regulatory for Wyoming and South Dakota.

5           I have a Bachelor of Science Degree in Finance from Washburn University and a  
6           Master of Business Administration Degree from the University of Missouri - Columbia.

7   **Q.   FOR WHOM ARE YOU TESTIFYING?**

8   A.   I am testifying on behalf of Black Hills Power.

9                                   **II.   PURPOSE OF TESTIMONY**

10 **Q.   WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 A.   The purpose of my Direct Testimony is to (i) sponsor and summarize the Black Hills  
12       Power Rate Review Application; (ii) provide a summary of the topics other Company  
13       witnesses will address and support through their testimony and exhibits; (iii) describe the  
14       primary drivers behind the Black Hills Power Rate Review Application; and (iv) address  
15       other specific topics included in the Rate Review Application.

16                                   **III.   OVERVIEW OF BLACK HILLS POWER**

17 **Q.   PLEASE SUMMARIZE THE SERVICES PROVIDED BY BLACK HILLS**  
18 **POWER.**

19 A.   Black Hills Power provides retail electric service to customers in South Dakota,  
20       Wyoming and Montana, as well as providing transmission service through Black Hills  
21       Power’s transmission system (discussed in more detail later in my testimony) and owns a  
22       portion of a DC Tie. In order to establish the costs related to each of these jurisdictions,  
23       Black Hills Power performed a Jurisdictional Cost of Service Study (“JCOSS”) to

1 allocate costs among each of these jurisdictions. The Direct Testimony of Mr. Douglas  
2 N. Hyatt discusses the JCOSS, and the results of this study are contained in Statement N  
3 of Volume 1 of the Application. This Rate Review Application is for the recovery of  
4 costs to provide safe and reliable service to Black Hills Power's South Dakota customers  
5 as reflected in the JCOSS. The JCOSS establishes the revenues needed from South  
6 Dakota retail customers to recover Black Hills Power's reasonable return on rate base, as  
7 well as operational and maintenance, depreciation, and tax expenses. The remainder of  
8 my testimony focuses on the South Dakota jurisdiction and the cost of service for those  
9 customers. All the numbers presented in my testimony are specific to the South Dakota  
10 jurisdiction.

11 **Q. PLEASE SUMMARIZE THE TRANSMISSION SYSTEM OF BLACK HILLS**  
12 **POWER.**

13 A. Black Hills Power's transmission system, the Common Use System ("CUS"), is a FERC  
14 regulated asset that extends 1,234 in total line miles through South Dakota, Wyoming and  
15 part of Nebraska. The CUS is jointly operated with Basin Electric Power Cooperative and  
16 Powder River Energy Corporation. The associated transmission assets and costs are  
17 recovered through a FERC formula rate that is updated on an annual basis and Black  
18 Hills Power's share is recovered through the Transmission Cost Adjustment.

19 **Q. HOW IS BLACK HILLS POWER TREATING THE RECOVERY OF**  
20 **TRANSMISSION COSTS IN THIS APPLICATION?**

21 A. All costs and assets related to the FERC transmission system have been removed from  
22 the Cost of Service Study ("COSS") used to calculate the cost of service for the South  
23 Dakota jurisdiction.

1 **Q. WHAT OTHER TRANSMISSION RELATED ASSETS DOES BLACK HILLS**  
2 **POWER OWN?**

3 A. Black Hills Power also owns 35% of a DC Tie that interconnects the Western and Eastern  
4 transmission grids, located in Rapid City, South Dakota. These assets and costs are  
5 recovered through a FERC stated rate, meaning that the rate charged does not change on  
6 a yearly basis like the FERC formula rate where the CUS assets and expenses are  
7 recovered. The DC Tie assets and expenses are also removed from the revenue  
8 requirement model used to calculate the cost of service for the South Dakota jurisdiction.

9 **IV. SUMMARY OF THE BLACK HILLS POWER'S**  
10 **RATE REVIEW APPLICATION**  
11

12 **Q. PLEASE SUMMARIZE BLACK HILLS POWER'S RATE REVIEW**  
13 **APPLICATION.**

14 A. Black Hills Power's Rate Review Application requests a \$50.55 million base rate  
15 increase based on a Test Period ending September 30, 2025. The Test Period is adjusted  
16 for reasonably known and measurable pro forma adjustments through September 30,  
17 2026, the end of the *Pro Forma* Period.

18 As supported by Company Witnesses Mr. Adrien M. McKenzie and Mr. Thomas  
19 D. Stevens in their Direct Testimonies, Black Hills Power's requested revenue increase is  
20 based on an overall Weighted Average Cost of Capital ("WACC") of 8.16%, including a  
21 10.50% Return on Equity ("ROE"), 5.50% cost of long-term debt, and a capital structure  
22 with 46.79% total debt and 53.21% total equity. The proposed 8.16% WACC is needed  
23 so that Black Hills Power has a reasonable opportunity to earn a fair return on the  
24 investments necessary to provide safe and reliable service to its Black Hills Power South  
25 Dakota customers.

1           Black Hills Power’s capital investment since the conclusion of Docket No. EL14-  
2           026 (“2014 Rate Review Proceeding”) includes integrity and reliability projects, growth,  
3           generation, and general plant. Additional capital investment primarily related to  
4           distribution and generation system investments and investments in general plant that will  
5           be made by Black Hills Power in the *Pro Forma* Period will also be incorporated into  
6           base rates through this rate Application. In total, Black Hills Power’s rate base has grown  
7           by approximately \$285.8 million from its 2014 Rate Review Proceeding through the end  
8           of the *Pro Forma* Period, September 30, 2026. This increase in rate base is driven by  
9           generation investments discussed in further detail in the Direct Testimony of Mr. Mark  
10          M. Lux, along with other electric distribution system investments by Black Hills Power  
11          in integrity, growth, and general plant, which are discussed in further detail in the Direct  
12          Testimony of Michael A. Pogany.

13           In addition to the approximately \$285.8 million increase in rate base included in  
14          this filing, Black Hills Power is also seeking to ensure new base rates are established that  
15          recover its ongoing operations and maintenance expense and administrative and general  
16          expense needed to provide safe and reliable electric service to customers in South  
17          Dakota. Adjustments to the Test Period expenses have been included in this Application  
18          in several areas, as detailed in Statement H of Volume 1 of the Application and supported  
19          by various witnesses as discussed in the witness overview provided in Section V of my  
20          testimony.

1 **Q. HOW WILL THE PROPOSED RATES IMPACT THE AVERAGE RESIDENTIAL**  
2 **AND GENERAL SERVICE BLACK HILLS POWER CUSTOMERS?**

3 A. The impact of the proposed rates for Residential and General Service customers is shown  
4 in Table JSH-1:

5 **Table JSH-1: Average Residential and General Service Bill Impacts**

<b>Customer Class</b>	<b>Total Average Monthly Bill</b>			
	<b>Under Current Rates</b>	<b>Under Proposed Rates</b>	<b>Change</b>	<b>%</b>
Residential Regular Service	\$98.96	\$124.08	\$25.13	25.4%
Residential Total Electric Service	\$131.63	\$167.18	\$35.55	27.0%
Residential Demand Service	\$201.76	\$253.41	\$51.66	25.6%
Small General Service	\$171.86	\$183.51	\$11.65	6.8%
General Service	\$1,600.30	\$2,010.05	\$409.75	25.6%
General Service Total Electric	\$435.58	\$550.28	\$114.70	26.3%

6  
7 **Q. IS BLACK HILLS POWER PROPOSING A CHANGE IN ITS DEPRECIATION**  
8 **RATES AS PART OF ITS RATE APPLICATION?**

9 A. Yes. Black Hills Power’s proposed depreciation rates are supported by a depreciation  
10 study included with and supported by the Direct Testimony of Mr. John J. Spanos.

11 **Q. PLEASE EXPLAIN THE COMPANY’S CLASS COST OF SERVICE STUDY**  
12 **(“CCOSS”) AND RATE DESIGN.**

13 A. The Direct Testimonies of Mr. Douglas N. Hyatt and Mr. Ethan J. Fritel contain a detailed  
14 explanation of the CCOSS and rate design proposals. Mr. Hyatt also discusses Black  
15 Hills Power’s proposed revenue allocation strategy to limit the cost increase within the  
16 Residential customer classes.

1 **Q. IS BLACK HILLS POWER PROPOSING ANY CHANGES TO ITS TARIFFS**  
2 **WITHIN THIS RATE APPLICATION, OTHER THAN CHANGES NECESSARY**  
3 **TO EFFECTUATE BLACK HILLS POWER’S PROPOSED BASE RATES?**

4 A. Yes. In addition to the changes mentioned above regarding the proposed rates and the  
5 revenue allocation strategy, Black Hills Power is proposing certain modifications to its  
6 tariffs, as discussed in the Direct Testimony of Mr. Jason S. Keil. These modifications  
7 include changes to Black Hills Power’s Energy Cost Adjustment (“ECA”) Rider, the  
8 removal of certain rate schedules that have been closed to new customers since 2007,  
9 changes to Black Hills Power’s General Rules and Regulations section of its tariff, and a  
10 new Spare Turbine Adjustment Rider (“STAR”), among other changes.

11 **Q. ARE THERE ANY OTHER REQUESTS WITHIN THE APPLICATION?**

12 A. Yes. Along with the requested increase in revenues, Black Hills Power is also requesting  
13 approval of deferred accounting treatment for the decommissioning of the Ben French  
14 generating units, deferred accounting treatment for insurance costs, additional funds for  
15 Black Hills Power’s energy efficiency program, additional funds for economic  
16 development, new funds for a low-income customer education program, the granting of  
17 confidential treatment of certain documents and information contained within the Rate  
18 Review Application, and the granting of any additional relief as the Commission would  
19 deem just and proper.

20 **Q. WHEN DOES BLACK HILLS POWER SEEK TO IMPLEMENT THE**  
21 **PROPOSED RATES IN THE APPLICATION?**

22 A. Black Hills Power seeks to implement the proposed rates in the Rate Review Application  
23 following the Commission’s final disposition in this case. Black Hills Power anticipates

1 this proceeding to be docketed and requested rates to be suspended. Black Hills Power  
2 seeks to implement the proposed rates following the Commission’s final disposition of  
3 the case, or no later than 180 days from the filing date, subject to refund.

4 **Q. DOES BLACK HILLS POWER HAVE ANY MAJOR CAPITAL PROJECTS**  
5 **THAT ARE NOT INCLUDED WITHIN THE COSS FOR THIS RATE REVIEW**  
6 **APPLICATION?**

7 A. Yes. Black Hills Power is currently constructing the Lange II Generation Project in  
8 Rapid City, South Dakota, which is not included in this Application.

9 **Q. HOW WILL BLACK HILLS POWER RECOVER THE COSTS ASSOCIATED**  
10 **WITH THE LANGE II GENERATION PROJECT?**

11 A. Black Hills Power anticipates filing a Phase In Plan Rider seeking to recover the costs  
12 associated with the Lange II Generation Project. This rider filing will be filed with the  
13 Commission on or before April 1, 2026, with rates proposed to be effective at the time the  
14 Lange II Generation Project is placed in service by Black Hills Power, which is currently  
15 planned to occur on September 30, 2026.

16 **V. BLACK HILLS POWER WITNESSES**

17 **Q. WHO ARE THE BLACK HILLS POWER WITNESSES PROVIDING**  
18 **SUPPORTING TESTIMONY IN THIS PROCEEDING?**

19 A. The following witnesses are filing testimony in support of Black Hills Power’s  
20 Application:

21 **Jerrad S. Hammer, Director – Regulatory**

22 The purpose of my testimony is set forth above.

1 **Michael A. Pogany, General Manager of Operations**

2 Mr. Pogany provides a general overview of Black Hills Power’s service territory and  
3 electric operations. He further discusses Black Hills Power’s integrity, reliability and  
4 growth capital expenditures, Black Hills Power’s Wildfire Mitigation Plan, Line Loss  
5 Studies, and Black Hills Power’s workforce needs.

6 **Mark L. Lux, Vice President of Power Delivery & Strategy**

7 Mr. Lux supports the Neil Simpson II conversion from a construction and operational  
8 perspective. Mr. Lux also supports generation plant investment and the major  
9 maintenance associated with the generating units. Mr. Lux also provides details on the  
10 decommissioning of the Ben French units.

11 **Eric M. Egge, Director of Electric Strategy, Planning & Policy**

12 Mr. Egge supports the analysis for the conversion of Neil Simpson II from a coal only  
13 fuel supply source to a dual fuel coal and natural gas supply. Mr. Egge also provides  
14 support for Black Hills Power’s initiative to stand up its own Balancing Authority (“BA”)  
15 along with the decision to join the Western Energy Imbalance Market (“WEIM”).

16 **Jason S. Keil, Manager – Regulatory**

17 Mr. Keil sponsors Black Hills Power’s tariffs and supports the proposed changes to  
18 the tariffs included with this Application. Mr. Keil addresses Black Hills Power’s major  
19 maintenance regulatory liability, shared services between affiliates, and the Black Hills  
20 Power energy efficiency and economic development proposals as well as the request for  
21 deferred accounting treatment for the decommissioning of the Ben French generating  
22 units.

1           **Lori J. Mack, Manager - Regulatory**

2           Ms. Mack sponsors the COSS in Volume 1, Section 4 of the Application. She  
3           supports the requested revenue increase by describing the Test Period, revenues, and  
4           operating expenses. Ms. Mack also applies known and measurable changes and certain  
5           other adjustments, to reflect the revenue needed to recover the costs to provide service to  
6           Black Hills Power customers and for Black Hills Power to have the opportunity to earn a  
7           fair return. Ms. Mack addresses various additional topics including the Lead Lag Study,  
8           Cash Working Capital allowance, Rate Base, and supports various adjustments to the  
9           COSS.

10          **Douglas N. Hyatt, Manager - Regulatory**

11          Mr. Hyatt presents Black Hills Power’s JCOSS and CCOSS in this proceeding. Mr.  
12          Hyatt presents the process by which Black Hills Power derived the proposed class  
13          revenues in this proceeding. Finally, Mr. Hyatt presents Black Hills Power’s proposed  
14          rate design, bill impact analysis, and revenue proof.

15          **Ethan J. Fritel, Senior Regulatory Analyst**

16          Mr. Fritel discusses and makes recommendations regarding Black Hills Power’s  
17          proposed billing determinants and Test Period adjustments including weather  
18          normalization and revenue synchronization. Mr. Fritel also sponsors Black Hills Power’s  
19          incremental growth adjustment to reflect the anticipated growth in the residential  
20          customer class during the *Pro Forma* Period.

21          **Thomas D. Stevens, Vice President, Treasurer**

22          Mr. Stevens provides support for Black Hills Power’s proposed capital structure and  
23          cost of debt and discusses recent debt and equity financing activity. Mr. Stevens

1 discusses the financial integrity of Black Hills Power and provides support for Black  
2 Hills Power's optimal capital structure and WACC. Mr. Stevens further discusses Black  
3 Hills Power's proposed adjustments to pension expense and retiree healthcare costs.

4 **Adrien M. McKenzie, President - Financial Concepts and Applications**

5 Mr. McKenzie supports the proposed cost of common equity used in the capital  
6 structure to determine the WACC incorporated in the COSS. Mr. McKenzie discusses  
7 current capital markets and provides an expert assessment of the range of reasonable rates  
8 of ROE for Black Hills Power of 10.0% to 11.0%. Mr. McKenzie's testimony supports a  
9 10.5% ROE requested by Black Hills Power. Mr. McKenzie further supports Black Hills  
10 Power's recommended capital structure of 46.79% debt and 53.21% equity.

11 **Kris J. Pontious - Senior Manager of Compensation**

12 Mr. Pontious supports the employee benefit and compensation philosophy of  
13 BHC which forms the basis for the costs that are included in the CCOS for the Test  
14 Period and the compensation-related adjustments that are included in this filing. Mr.  
15 Pontious describes the overall benefit and compensation programs for BHC employees,  
16 including employees of Black Hills Power, as well as the steps undertaken by BHC to  
17 evaluate its overall compensation programs. Further, Mr. Pontious addresses the customer  
18 benefits from incentive compensation as it applies to the incentive compensation included  
19 in the rate Application submitted by Black Hills Power in this proceeding.

20 **John J. Spanos, President – Gannett Fleming Valuation and Rate Consultants, LLC**

21 Mr. Spanos supports the depreciation study for Black Hills Power and sets forth the  
22 calculated annual depreciation rates by account based on plant balances as of June 30,  
23 2025. Mr. Spanos discusses the proposed rates for Black Hills Power assets to be

1 depreciated over their useful lives which are based on the most commonly used methods  
2 and procedures.

3 **VI. PRIMARY DRIVERS OF RATE APPLICATION**

4 **Q. WHEN WAS THE LAST RATE PROCEEDING FOR BLACK HILLS POWER?**

5 A. The last general Rate Review for Black Hills Power in South Dakota was filed in March  
6 of 2014, Docket No. EL14-026, based on a *Pro Forma* Period ending September 30, 2014.  
7 Interim rates were made effective October 1, 2014.

8 **Q. ARE EXISTING RATES ADEQUATE?**

9 A. No. Black Hills Power's existing rates are inadequate to allow Black Hills Power to  
10 recover its costs of providing electric service along with an adequate rate of return. Black  
11 Hills Power is requesting that rates be increased so that Black Hills Power will have an  
12 opportunity to recover its cost of providing service and earn a reasonable rate of return on  
13 its electric system investments used and useful in providing service in South Dakota.

14 **Q. WHAT ARE THE PRIMARY DRIVERS FOR BLACK HILLS POWER'S FILING  
15 OF THIS RATE APPLICATION?**

16 A. The primary drivers for the filing of this rate Application are the need to increase base rates  
17 to address Black Hills Power's revenue deficiency, primarily resulting from capital  
18 additions (including the associated depreciation expense and the impacts of the  
19 depreciation study), increased operating expenses, and an increase in the WACC being  
20 requested by Black Hills Power.

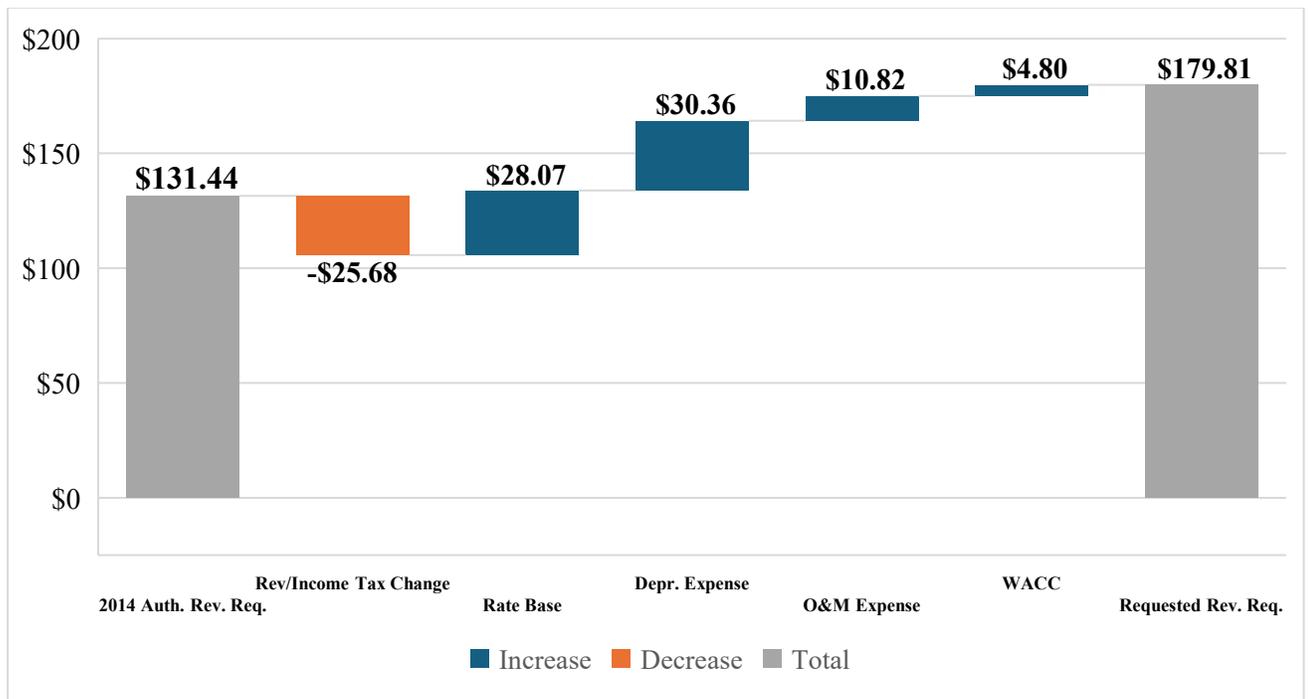
1 **Q. WHAT IS BLACK HILLS POWER’S REVENUE DEFICIENCY INCLUDED IN**  
 2 **THE APPLICATION?**

3 A. Black Hills Power seeks an increase of \$50.55 million to address the existing revenue  
 4 deficiency. The total requested South Dakota jurisdictional revenue requirement for Black  
 5 Hills Power is \$179,805,093, as shown in the COSS in the Application at Statement M  
 6 page 2 and discussed in more detail by Ms. Mack.

7 **Q. PLEASE SUMMARIZE EACH OF THE PRIMARY DRIVERS FOR THIS RATE**  
 8 **APPLICATION.**

9 A. The primary drivers of Black Hills Power’s revenue deficiency are identified in Table JSH-  
 10 2 below, beginning with the authorized revenue requirement in the 2014 Rate Review  
 11 Settlement and building to the requested Cost of Service in the current Application:

12 **Table JSH-2: Black Hills Power Rate SD Rate Case Revenue**  
 13 **Deficiency Drivers (in millions)**  
 14



15

1 The primary drivers for this rate application are summarized below:

2 **A. Capital Investments for Safe and Reliable Service and Associated**  
3 **Depreciation Expense Impacts**  
4

5 The largest revenue deficiency component is an approximate \$285.8 million  
6 increase in rate base since the 2014 Rate Review Proceeding, resulting from capital  
7 investments Black Hills Power has made to ensure safe and reliable service for South  
8 Dakota customers. Mr. Pogany and Mr. Lux provide more detail on Black Hills Power's  
9 capital investments in this proceeding. This increase in rate base, which includes an  
10 increase of \$523.1 million of gross plant, also impacts the level of depreciation expense  
11 experienced by Black Hills Power and included in the COSS calculation shown on  
12 Statement J, of Volume 1 of the Application. In addition, since it has been twelve years  
13 since the last Rate Review Proceeding, Black Hills Power engaged Mr. Spanos to conduct  
14 a depreciation study to align the proposed depreciation rates with the useful lives of the  
15 assets. The results of this depreciation study have also been incorporated into the  
16 calculation of the depreciation expense included in the COSS calculation shown on  
17 Statement J, of Volume 1 of the Application.

18 **B. Increased Operating Expenses**

19 While Black Hills Power has prudently managed its expenses since the 2014 Rate  
20 Review Proceeding, labor costs, outside services, and wildfire mitigation requirements  
21 have caused Black Hills Power's operating expenses to continue to increase over the past  
22 twelve years. Black Hills Power has experienced higher costs for both capital  
23 investments and operating expenses since the 2014 Rate Review. Since the 2014 Rate  
24 Review Proceeding the operating expenses have increased by \$10.3 million (from \$67.2  
25 million to \$77.5 million) which represents a very modest 15.4% increase over a twelve-

1 year period. This increase in operating expenses represents an average increase of  
2 approximately 1.28% per year over that twelve-year period, which is well below the level  
3 of inflation experienced over that same time period.

4 **C. Weighted Average Cost of Capital**

5 In the 2014 Rate Proceeding, the Commission approved a WACC for Black Hills  
6 Power of 7.76% based on the result of a Settlement Stipulation. Black Hills Power is  
7 requesting a ROE of 10.5% and a cost of debt of 5.50% which results in a WACC of  
8 8.16%, based on a capital structure of 53.21% equity and 46.79% long-term debt in this  
9 Application. Mr. McKenzie provides extensive detail and support for the recommended  
10 ROE of 10.5% as reasonable in this case. Mr. Stevens supports the cost of debt for Black  
11 Hills Power. The testimony of Mr. Stevens and Mr. McKenzie supports the  
12 reasonableness of the capital structure for Black Hills Power.

13 **VII. RATE REVIEW EXPENSE**

14 **Q. WHAT REGULATORY EXPENSE IS BLACK HILLS POWER REQUESTING**  
15 **RECOVERY OF IN THIS APPLICATION?**

16 A. Black Hills Power is requesting to recover the Rate Review expenses incurred for this  
17 proceeding and expenses associated with Integrated Resource Plan (“IRP”) type analyses  
18 which occurred in 2018, 2021 and 2024 related to the long-term resource planning for the  
19 Black Hills Power system. Black Hills Power is estimating the Rate Review expenses for  
20 this proceeding to be \$800,000, see the table below and COSS, Schedule H-11.

1

**Table JSH-3: Rate Review Expenses**

<b>Rate Case Expense</b>	<b>Amount</b>
Depreciation Consulting	\$100,000
Line Loss Consulting	\$52,900
Management Applications Consulting	\$9,824
ROE Consulting	\$110,000
SD PUC Fee	\$500,000
Travel Expenses	\$15,000
Miscellaneous Expenses	\$12,276
<b>Total Rate Case Expenses</b>	<b>\$ 800,000</b>
IRP Type Analyses Expenses	\$ 975,906
<b>Total Regulatory Expenses</b>	<b>\$ 1,775,906</b>
Proposed Amortization Period (Years)	5
<b>Proposed Annual Amortization Expense</b>	<b>\$ 355,181</b>

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9

As shown in the table above, Black Hills Power incurred a total expense of \$975,906, included on Schedule H-11 of the COSS, for the IRP type analyses conducted in 2018, 2021, and 2024. These expenses included costs to complete Busbar Studies, modeling support, and general project support. IRP related costs are a necessary component of long-term resource planning and directly benefit customers by ensuring a reliable and cost-effective generation resource portfolio. As such, it is appropriate to recover these prudently incurred planning costs

10 **Q. ARE THE REQUESTED REGULATORY EXPENSES FOR THIS APPLICATION**  
 11 **REASONABLE?**

12 A. Yes, the Rate Review expenses being requested in this proceeding are reasonable and  
 13 necessary as they reflect the costs required to prepare, present, and support Black Hills  
 14 Power’s filing in compliance with applicable laws and regulations and to support long-

1 term resource planning activities related to ensuring a reliable and cost-effective  
2 generation resource portfolio.

3 **Q. OVER WHAT PERIOD OF TIME IS BLACK HILLS POWER PROPOSING TO**  
4 **AMORTIZE THESE REGULATORY RELATED EXPENSES?**

5 A. Black Hills Power is proposing to amortize these expenses over a five-year period and  
6 has included \$355,181 in the COSS representing this amortization proposal.

7 **VIII. PROPOSED DEFERRED ACCOUNTING TREATMENT**  
8 **OF INSURANCE COSTS**  
9

10 **Q. WHAT IS BLACK HILLS POWER PROPOSING WITH RESPECT TO**  
11 **INSURANCE EXPENSES IN THIS PROCEEDING?**

12 A. Black Hills Power is proposing deferred accounting treatment for insurance expenses.

13 Generally, deferred accounting orders are used to grant a public utility the opportunity to  
14 defer and track unanticipated costs with the opportunity to request recovery of the costs at  
15 a later time. The costs are generally significant in amount and/or could stem from  
16 unanticipated costs and/or from new federal or state laws or rules that impact the utility's  
17 costs.

18 **Q. WHAT IS THE PROPOSED BASELINE AMOUNT INCLUDED IN THE COSS**  
19 **FOR INSURANCE EXPENSE?**

20 A. The total company insurance expense amount for the *Pro Forma* Period for FERC  
21 Accounts 924 and 925 are calculated in the COSS on Statement H. The South Dakota  
22 jurisdictional baseline amount, as shown on Statement M page 3, is \$5,639,616.

1 **Q. PLEASE EXPLAIN WHY AN INSURANCE EXPENSE DEFERRAL**  
2 **TREATMENT IS REQUESTED IN THIS PROCEEDING.**

3 A. Similar to property tax expenses, insurance expenses are highly variable year over year,  
4 outside the control of the management, and are required to be paid. The deferred  
5 accounting treatment ensures customers pay no more or no less than the assessed  
6 insurance expense over time.

7 **Q. PLEASE EXPLAIN THE RECENT HISTORY OF INSURANCE EXPENSES FOR**  
8 **BLACK HILLS POWER.**

9 A. BHSC secures insurance policies to respond in the event of an insured loss. The types of  
10 coverage that BHSC secures on an annual basis include, but are not limited to, General  
11 Liability, Excess Liability, Commercial Auto, Workers Compensation, Property, Business  
12 Interruption, Directors & Officers, and Terrorism. Over the past seven years, the  
13 commercial insurance marketplace has experienced steady insurance premium increases  
14 year over year with a high level of volatility in the amount of insurance premiums. Table  
15 JSH-4 below shows the continued volatility and increases in insurance expenses for  
16 Black Hills Power from 2020 through 2025.

17 **Table JSH-4: Historical Insurance Costs (FERC Accts. 924 and 925)**

<b>Period</b>	<b>Amount</b>	<b>YOY Change</b>	<b>YOY % Change</b>
2020	2,036,034		
2021	2,171,060	135,026	7%
2022	2,076,789	(94,271)	-4%
2023	2,623,601	546,812	26%
2024	3,654,818	1,031,217	39%
2025	4,221,722	566,904	16%
<i>Pro Forma</i> Period	5,639,616	1,417,894	34%
<b>2020 - <i>Pro Forma</i> Change</b>		<b>3,603,582</b>	<b>177%</b>

18

1 **Q. HOW WILL THIS DEFERRED ACCOUNTING TREATMENT OPERATE**  
2 **AFTER THE EFFECTIVE DATE OF NEW RATES IN THIS PROCEEDING?**

3 A. Black Hills Power proposes establishing a base level cost that corresponds with the  
4 amounts included in the COSS in FERC Accounts 924 and 925 and serves as the baseline  
5 for the tracking of costs going forward at the time new rates from this proceeding are  
6 implemented. The difference between actual booked expenses and the base level  
7 amounts will be deferred and recorded to the regulatory asset (or liability) account  
8 established for this purpose. With deferred accounting treatment, customers are also  
9 protected if the actual expenses are less than the amount included in base rates.

10 **Q. PLEASE SUMMARIZE WHY THE COMMISSION SHOULD APPROVE THE**  
11 **INSURANCE EXPENSE TREATMENT AND HOW CUSTOMERS BENEFIT.**

12 A. This treatment aligns rates with actual, prudently incurred insurance costs that are  
13 material and largely outside Black Hills Power's control. By setting a baseline equal to  
14 the insurance expense in the COSS (FERC Accounts 924 and 925) and deferring only the  
15 variance, customers pay no more than actual costs over time. This symmetrical,  
16 transparent treatment protects both customers and Black Hills Power from volatility  
17 inherent in the insurance marketplace.

18 **IX. CORRIEDALE WIND FARM**

19 **Q. PLEASE DESCRIBE THE CORRIEDALE WIND FARM ("CORRIEDALE").**

20 A. Corriedale is a 52.5 MW wind farm in which Black Hills Power owns a 62.5% undivided  
21 interest or 32.5 MW and was placed into service in November of 2020. Corriedale was  
22 constructed as a response to customer demand for a renewable energy option to meet  
23 customer's environmental and societal goals. This customer demand led to the creation

1 of the Renewable Ready Program (approved by the Commission in Docket No. EL18-  
2 060) which is a voluntary program where customers can subscribe to a percentage of  
3 Corriedale's capacity. Black Hills Power recovers Corriedale's revenue requirement  
4 through the Renewable Ready Program.

5 **Q. PLEASE DESCRIBE THE RENEWABLE READY PROGRAM.**

6 A. The Renewable Ready Program offers commercial and industrial customers the  
7 opportunity to subscribe to a portion of Corriedale's generating capacity with  
8 commitments of at least five years to twenty-five years. Customers pay a Renewable  
9 Ready Charge Rate based upon the duration of their subscriber agreement. The  
10 Renewable Ready Charge Rate(s) are as follows:

11 5-9 year subscription - \$0.028 per kWh

12 10-14 year subscription - \$0.026 per kWh

13 15-24 year subscription - \$0.024 per kWh

14 **Q. HOW IS CORRIEDALE BEING TREATED IN THE APPLICATION?**

15 A. In the Amendment to Settlement Stipulation approved in Docket No. EL18-060, Black  
16 Hills Power agreed that the Renewable Ready Program revenue to be included in any rate  
17 review filing for the first fifteen years following commercial operation of Corriedale  
18 would equal at least \$2.32 million. In this Application, to ensure no impact to non-  
19 subscribing customers, Black Hills Power adjusted out the existing Renewable Ready  
20 Program revenue of \$3,131,196, see Schedule I-3 of the COSS, and did a full revenue  
21 requirement calculation, see COSS, Schedule I-13. Both of these COSS Schedules are  
22 described in the testimony of Ms. Mack. The revenue requirement calculation resulted in

1 a revenue credit of \$1,859,232 but due to the Settlement Stipulation mentioned above,  
2 Black Hills Power credited the COSS \$2,320,000 as shown on Statement I.

3 **X. CONCLUSION**

4 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

5 A. In summary, Black Hills Power's Rate Application reflects the prudent and necessary  
6 investments required to continue providing safe, reliable, and cost-effective electric  
7 service. The requested increase ensures recovery of Black Hills Power's costs, supports  
8 essential infrastructure investments, and maintains the financial strength needed to serve  
9 customers into the future.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 A. Yes, it does.

**VERIFICATION**

This Direct Testimony and Exhibits of Jerrad S. Hammer is true and accurate to the best of my knowledge, information, and belief.

*/s/ Jerrad S. Hammer*  
\_\_\_\_\_

Jerrad S. Hammer