

Direct Testimony
Kris J. Pontious

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

| | |
|-------------------|--|
| AIP | Annual Incentive Plan |
| BHC | Black Hills Corporation |
| BHSC | Black Hills Service Company, LLC |
| Black Hills Power | Black Hills Power, Inc. d/b/a Black Hills Energy |
| COSS | Cost of Service Study |
| Commission | South Dakota Public Utilities Commission |
| CPP | Certified Payroll Professional |
| DART | Days Away, Restricted, or Transferred |
| EPS | Earnings Per Share |
| HPT | Hits Per Thousand |
| HRIS | Human Resources Information Systems |
| LTIP | Long-Term Incentive Plan |
| NEEP | Non-Executive Equity Program |
| O&M Expense | Operations & Maintenance Expense |
| PHR | Professional in Human Resources |
| SAIDI | System Average Interruption Duration Index |
| STIP | Short-Term Incentive Plan |
| Test Period | The twelve (12) months ended September 30, 2025 |

I. INTRODUCTION AND QUALIFICATIONS

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

2 A. My name is Kris J. Pontious, and my business address is 7001 Mount Rushmore Road,
3 Rapid City, SD 57702.

4 **Q. PLEASE DESCRIBE YOUR EMPLOYMENT.**

5 A. I am employed by Black Hills Service Company, LLC (“BHSC”), a wholly owned
6 subsidiary of Black Hills Corporation (“BHC”). I am the Senior Manager of
7 Compensation, Payroll, and Human Resources Regulatory.

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

9 A. I graduated from Point Loma Nazarene University with a degree in Business
10 Management. Additionally, I received the Professional in Human Resources (“PHR”)
11 certification in 2019 and a Certified Payroll Professional (“CPP”) in 2006. I have worked
12 in the human resources field for over 20 years, taking progressively responsible roles, and
13 have served in a leadership capacity for more than 18 years.

14 I have held human resources positions within the areas of compensation, shared
15 services, human resource information systems (“HRIS”), payroll, disbursements, and
16 generalist roles throughout my career. Organizations in which I have worked in Human
17 Resources functions prior to BHC include PETCO Animal Supplies and Jack in the Box.

18 I began my employment with BHC in 2008 as the Corporate Payroll Manager in
19 Rapid City, SD. I became Disbursements Manager in 2013, moved to the Manager of HR
20 Shared Services in 2017, Senior Manager of HR Systems in 2020, Senior Manager of
21 Compensation in 2021 and am currently Senior Manager of Compensation, Payroll and
22 HR Regulatory. In this role I am responsible for leading and managing the compensation

1 and payroll functions and providing direction and leadership for the design, development,
2 administration, and management of all compensation and payroll programs. I provide
3 direct oversight for the BHC compensation and payroll teams and support Executive
4 compensation and the Leadership Development & Compensation Committee of the
5 Board of Directors. In addition, I am responsible for the HR regulatory strategy,
6 testimony, and execution of data requests for all rate reviews. My responsibilities
7 support all employees within the entire BHC organization.

8 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

9 A. I am testifying on behalf of Black Hills Power, Inc. d/b/a Black Hills Energy (“Black
10 Hills Power”).

11 **II. PURPOSE OF TESTIMONY**

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

13 A. The purpose of my direct testimony is to support employee benefit and compensation
14 costs included in the Cost of Service Study (“COSS”) for the Test Period ending
15 September 30, 2025, and the compensation-related pro forma adjustments that are
16 included in the filing. In my direct testimony, I will describe the overall benefit and
17 compensation programs for BHC employees, including employees of Black Hills Power,
18 as well as the steps BHC takes to evaluate its overall compensation programs.

19 **III. EMPLOYEE COMPENSATION AND BENEFITS**

20 **Q. PLEASE DESCRIBE THE BENEFIT PLANS THAT BHC PROVIDES TO ITS**
21 **EMPLOYEES.**

22 A. BHC offers a combination of company-provided and voluntary benefits to employees.
23 Employees are automatically provided certain company-provided benefits upon the start

1 of employment such as short-term and long-term disability and life insurance. Employees
2 can choose to participate in voluntary benefits and pay a portion or all associated costs.
3 These voluntary benefit programs consist of: (1) medical, dental, and vision plans; (2)
4 flexible spending accounts and health savings accounts; (3) supplemental life insurance
5 and accidental death and dismemberment insurance; (4) retirement (401k and pension);
6 (5) supplemental short-term and long-term disability; and (6) other benefits including
7 employee assistance programs and long-term care insurance.

8 **Q. WHAT IS BHC'S GENERAL COMPENSATION PHILOSOPHY?**

9 A. As a company focused on the long-term sustainability of its business, the BHC
10 compensation program is designed to:

- 11 • Attract, motivate, retain, and encourage personal and professional development of
12 qualified employees;
- 13 • Provide compensation that is market competitive;
- 14 • Promote safe and reliable service by attracting and retaining skilled talent; and
15 • Promote the relationship between pay and performance by appropriately
16 recognizing and rewarding individual employee performance.

17 Compensation programs are designed to be externally competitive, internally equitable,
18 motivating, cost effective, and legally compliant. All compensation programs apply to
19 BHC subsidiaries, including Black Hills Power and BHSC.

1 **Q. PLEASE IDENTIFY THE COMPONENTS OF BHC’S COMPENSATION**
2 **PROGRAM.**

- 3 A. The primary components of the overall BHC compensation program are:
- 4 • Base Pay: Base pay (hourly wage or annual salary) represents the fixed portion
5 of an employee’s total cash compensation opportunity; and
 - 6 • Variable Compensation: Variable compensation is pay that is not fixed or
7 guaranteed but awarded based on achievement against company-wide specific
8 performance-based goals. Variable compensation programs include Annual
9 Incentive Plan (“AIP”), Short-Term Incentive Plan (“STIP”), and Long-Term
10 Incentive Plan (“LTIP”).

11 **Q. PLEASE EXPLAIN BHC’S PHILOSOPHY ON BASE COMPENSATION.**

- 12 A. BHC’s philosophy regarding base pay is for a position’s pay grade midpoint to align
13 with the market median for similar positions. There are three types of pay structures:
14 non-exempt positions (eligible for overtime), exempt positions (not eligible for
15 overtime), and executive level (Vice Presidents and above).

16 All (non-union) positions are assigned to a pay grade using benchmark
17 information from reputable and relevant external surveys that reflect the average
18 (midpoint) of the market for similar jobs. Each pay grade has a minimum, midpoint, and
19 maximum amount and includes an incentive target percentage.

20 **Q. WHAT STEPS DOES BHC TAKE TO ENSURE THAT COMPENSATION IS**
21 **REASONABLE AND MARKET COMPETITIVE?**

- 22 A. The BHC Human Resources Compensation team engages in a periodic review process
23 to compare (non-union) positions to market data obtained by reputable third-party

1 surveys (utilizing actual compensation data by position as reported by participating
2 companies) to ensure that position pay ranges remain competitive with the market.

3 Surveys provide base salary and incentive pay data. BHC matches (non-union)
4 positions to those in the surveys that are like BHC in terms of job responsibilities,
5 company revenue size, and number of employees. Positions are placed with a salary
6 grade where the midpoint of the range is aligned to the average (midpoint) market rate
7 for the job. The same process is used when creating new positions.

8 **Q. WAS THERE A MERIT INCREASE TO EMPLOYEES' BASE PAY IN 2025?**

9 A. Yes. The average 2025 merit increase, effective February 3, 2025, and included in the
10 payroll annualizations, provided to eligible (non-union) employees based on 2024
11 individual performance, was 4.17% for employees of Black Hills Power. The average
12 2025 merit increase was 4.01% for all BHC eligible employees.

13 **Q. DOES BHC PROVIDE WAGE INCREASES OUTSIDE OF THE MERIT**
14 **INCREASES?**

15 A. Yes. Non-merit “wage adjustments” may include any (or a combination) of the following
16 reasons above/beyond annual merit increase opportunity:

- 17 • Employee acceptance of a posted position (new position/new pay);
- 18 • Periodic adjustment (reasons may include an in-grade adjustment or
19 reorganization);
- 20 • Change in salary grade (position changed grade due to a market review);
- 21 • Field Career Path Program Adjustment (promotion to next highest skill-based
22 level); or
- 23 • Promotion.

1 **Q. PLEASE LIST THE VARIABLE COMPENSATION PROGRAMS BHC OFFERS.**

2 A. As mentioned above and described in more detail below, BHC variable compensation
3 programs include the AIP, STIP, and LTIP.

4 **Q. HOW DO VARIABLE COMPENSATION PROGRAMS BENEFIT CUSTOMERS?**

5 A. Variable compensation programs benefit customers because they allow BHC to hire,
6 recognize and retain skilled employees, directly affecting its ability to provide safe,
7 reliable service to customers. Not offering a competitive compensation package
8 (including incentive) would severely limit the ability to hire and retain skilled workers
9 and could increase the risk of losing employees to other companies that provide incentive
10 pay. Having a less-skilled workforce would make BHC vulnerable to operational safety
11 risks, customer service complaints, and higher costs due to turnover. Total compensation
12 (base pay and incentive) would be significantly less competitive without the incentive
13 plan component. In addition, since variable pay is based on company performance in a
14 number of areas, there is incentive to operate the company with a high level of safety,
15 reliability, and financial responsibility which also provides benefits to customers. Those
16 benefits include improvements in customer experience, reduced outages, and reduced
17 days away from work, all leading to reductions or avoidance of operating costs.

18 **Q. PLEASE DESCRIBE THE AIP.**

19 A. AIP allows employees below the director level (eligible employees), except interns and
20 temporary employees, the opportunity to earn an annual incentive award based upon the

1 company's performance goals. The intent of the AIP is to create a strong link between an
2 employee's efforts and accomplishments and BHC's performance goals.

3 The AIP: (1) rewards eligible employees who contribute to the success of BHC
4 and its subsidiary business units; (2) rewards eligible employees who contribute to safe
5 and reliable service to customers; (3) motivates efficient and effective performance and
6 behavior that supports the financial and non-financial goals; and (4) increases employees'
7 understanding of business goals and performance metrics.

8 The AIP is a critical component of the total compensation package, ensuring that
9 BHC and Black Hills Power are competitive. The AIP target percentage is based on the
10 employee's pay grade for non-union employees. Union employees receive a negotiated
11 AIP target percentage.

12 **Q. WHAT ARE THE SPECIFIC GOALS AND METRICS OF THE AIP?**

13 A. The performance metrics and goals are reviewed and updated annually to align with
14 BHC's overall strategy. Performance goals for 2025 had specific metrics that included
15 financial, customer experience, reliability, safety, and people and culture. Each
16 performance goal is weighted and has a threshold, target, and maximum level. Customer
17 focused measurements include cost per customer, customer satisfaction and effort,
18 reducing line hits by tracking hits per thousand ("HPT") and the reduction of system
19 interruptions (System Average Interruption Duration Index or "SAIDI"). Operational
20 excellence measurements reflect aggregate safety goals for the organization for Days
21 Away, Restricted, or Transferred ("DART"), Timeliness of Reporting incidents, and
22 Proactive Safety Activities. People and Culture metrics support the promotion of diversity
23 and employee engagement survey participation in the workplace. These annual goals and

1 metrics are designed to maximize customer satisfaction, minimize safety risks, and focus
2 on financial viability. Each performance measure is scored individually and weighted
3 depending on achievement level.

4 **Q. PLEASE EXPLAIN HOW THE “COST PER CUSTOMER” METRIC BENEFITS**
5 **CUSTOMERS.**

6 A. The Cost per Customer metric used in both the AIP and STIP incentivizes containment of
7 non-fuel operating and maintenance expense (“O&M Expense”) and thereby provides a
8 direct benefit to customers. This metric also provides an additional benefit by
9 contributing to customer retention and growth, both of which tend to put downward
10 pressure on rates over time by spreading fixed costs over greater volumes.

11 **Q. PLEASE EXPLAIN HOW THE EARNINGS PER SHARE (“EPS”) METRIC**
12 **BENEFITS CUSTOMERS.**

13 A. Incentive compensation with financially based metrics, like EPS, directly benefits
14 customers. Achieving healthy financial performance delivers tangible and measurable
15 benefits to customers. Financial health directly supports the ability to:

- 16 • Invest in infrastructure that enhances safety, reliability, and service quality;
- 17 • Maintain stable rates by avoiding the need for emergency or frequent rate filings;
- 18 • Attract and retain skilled employees, ensuring continuity of service and
19 operational excellence;
- 20 • Access capital at favorable rates, which lowers the cost of financing system
21 improvements, a savings that ultimately benefits customers; and
- 22 • Drive operational efficiency, which reduces unnecessary costs and improves
23 service delivery.

1 Incentive compensation tied to financial performance aligns employee behavior
2 with these outcomes, encouraging a culture of accountability, cost control, and
3 continuous improvement. When employees are motivated to meet financial goals, they
4 are also working to ensure the Company operates efficiently and sustainably, which
5 directly benefits customers through better service and long-term cost containment.

6 One specific example of how financial metrics in incentive compensation plans
7 directly benefit customers was the impact of Winter Storm Uri in 2021. BHC's financial
8 strength leading up to Winter Storm Uri allowed it to access and secure necessary
9 financing to ensure adequate electric and generation fuel supplies for continued and
10 uninterrupted service to customers. BHC's financial strength and solid credit rating,
11 supported by employees achieving financial metrics, allowed the Company to purchase
12 and provide the electric and generation fuel supplies needed during extreme cold
13 temperatures that occurred during unprecedented, extremely high prices.

14 **Q. WHY IS THE AIP AN IMPORTANT PART OF BHC EMPLOYEE**
15 **COMPENSATION?**

16 A. As discussed above, an incentive program provides competitive total compensation for
17 employees. An employee's total cash compensation (base salary plus incentive) requires
18 not only competitive base pay, but also competitive variable pay which is only awarded if
19 performance goals are achieved.

20 **Q. WHAT WAS THE PAYOUT FOR THE AIP RELATED TO 2024**
21 **PERFORMANCE?**

22 A. The actual 2024 AIP achievement, paid in 2025, was 103.56% for all BHC non-union
23 employees. Union employee's payout was 100%. For example, if a non-union employee's

1 annual AIP for their respective position was 6%, their payout was 103.56% of the 6% (or
2 6.21%).

3 **Q. PLEASE DESCRIBE BHC'S STIP.**

4 A. The STIP is the incentive plan applicable to employees in positions of Director and above
5 and is a percentage of eligible earnings determined by salary grade. Directors share the
6 same performance metrics and goals of the AIP.

7 **Q. WHAT ARE THE SPECIFIC PERFORMANCE OBJECTIVES IN THE STIP?**

8 A. STIP participants' performance goals are the same as the AIP. Specific measurements
9 include financial; customer experience; reliability; safety related; and people and culture
10 metrics. Each performance goal is weighted and has a threshold, target, and maximum
11 level.

12 **Q. HOW DOES THE ACHIEVEMENT OF THE STIP GOALS BENEFIT
13 CUSTOMERS?**

14 A. The performance goals and metrics of STIP are the same as AIP and benefit customers
15 because they allow BHC to hire, recognize and retain skilled employees, directly
16 affecting its ability to provide safe, reliable service to customers.

17 **Q. WHAT IS THE PURPOSE OF BHC'S STIP?**

18 A. Like the AIP, the STIP is a key component of the total compensation package that ensures
19 BHC is competitive with market practices. STIP is designed to: (1) reward eligible
20 employees who contribute to the success of BHC and their assigned business units; (2)
21 reward eligible employees who contribute to the leadership and execution of BHC's
22 strategy and strategic initiatives; (3) motivate work performance and behavior that
23 supports the financial and non-financial goals of BHC; and (4) promote the successful

1 execution of the overall annual objectives of BHC and its subsidiaries, including Black
2 Hills Power.

3 **Q. WHAT WAS THE PAYOUT FOR THE STIP RELATED TO 2024**
4 **PERFORMANCE?**

5 A. The actual 2024 STIP achievement, paid in 2025, was 103.56% for all non-executive
6 BHC employees eligible for STIP. For example, if an employee's annual STIP for their
7 respective position was 20%, their payout was 103.56% of the 20% (or 20.71%).

8 **Q. HOW IS THE STIP TARGET PERCENTAGE DEVELOPED?**

9 A. The STIP incentives are a percentage of eligible earnings and established based on
10 market data. All positions are assigned to a pay grade using benchmark information from
11 reputable and relevant external surveys that reflect the average (midpoint) of the market
12 for similar jobs. Each pay grade has a minimum, midpoint, and maximum amount and
13 includes an incentive target percentage.

14 **Q. HOW IS INCENTIVE COMPENSATION CALCULATED FOR EMPLOYEES?**

15 A. The formula for calculating incentive payouts (AIP or STIP) is as follows:
16 Employee's Eligible Earnings for the respective year x Target Bonus Percentage (based
17 on grade of position) x Scorecard Result = Incentive Amount. Prorated payments may be
18 paid to employees for reasons such as:

- 19 • Employees who are newly hired on or before September 30 of the Plan Year;
- 20 • Employees who are promoted, transferred, or demoted during the Plan Year;
- 21 • Employees who are on approved leave of absence during the Plan Year;
- 22 • Employees who are on military leave during the Plan Year;
- 23 • Employees who leave due to disability during the Plan Year;

- 1 • Employees who retire during the Plan Year; or
- 2 • Employee death during the Plan Year.

3 **Q. PLEASE DESCRIBE THE LTIP.**

4 A. BHC's LTIP purpose is that of rewarding, recognizing, and providing competitive pay to
5 Executive level employees. Equity-based pay is a common and necessary component of
6 an Executive's total compensation package. LTIP includes two forms of equity grants: (1)
7 restricted stock; and (2) performance share awards.

8 **Q. WHAT IS THE PURPOSE OF OFFERING EQUITY COMPENSATION?**

9 A. Equity grants under the LTIP are intended to ensure market-competitive pay and to attract
10 and retain Executive level employees. Performance share equity awards provided through
11 the LTIP recognize the performance over a three-year period. Those receiving restricted
12 stock awards do not have immediate rights to that stock; it typically vests over a three-
13 year period. Therefore, employees who receive equity are provided an incentive to stay
14 with BHC during the vesting period.

15 **Q. HOW DOES THE LTIP BENEFIT CUSTOMERS?**

16 A. LTIP gives BHC tools to attract and retain quality leadership that impacts customers
17 positively. Beyond giving BHC the ability to attract and retain key employees who help
18 shape the business strategy (focusing on customer service, safe and efficient operations,
19 high quality, and a financially sound organization), LTIP provides an opportunity for
20 leaders to also be owners invested in the company. When the financial interests of
21 individual employees are aligned with those of the organization, employees are more
22 invested in the operational objectives and reputation of the organization, including the

1 provision of safe and reliable service, operational efficiency, and customer service.

2 Retaining leadership also saves costs of hiring and training new employees.

3 **Q. IS IT REASONABLE FOR BLACK HILLS POWER TO RECOVER THE COSTS**
4 **OF EQUITY COMPENSATION PAID TO EMPLOYEES?**

5 A. Yes, it is a prudently incurred and necessary employee expense. Equity awards to
6 employees are consistent with market practices for similar positions in terms of scope of
7 responsibilities and skills. Equity compensation is a common form of compensation for
8 executive positions in the industry and is necessary to attract, compete for and retain
9 talent.

10 **Q. WHAT RECOGNITION PROGRAMS ARE OFFERED TO EMPLOYEES?**

11 A. BHC recognition programs are designed to reward employees and recognize teamwork,
12 years of service, and exemplary performance. These programs enhance employee morale
13 while creating focus on customer service, teamwork, and employment longevity.

14 **A. Energize!**

15 Energize! is a peer-to-peer recognition program in which employees can award points to
16 other employees that can be redeemed for assorted merchandise. Non-points-based
17 recognition is also awarded in the form of certificates of appreciation and thank you
18 notes.

19 **B. Service Awards**

20 Service awards for reaching certain length-of-service milestones are provided to
21 employees. Awards include plaques and gifts of varying monetary value.

1 **C. Project Equity**

2 Restricted stock awards may be provided to employees who work on projects (above and
3 beyond their normal scope of responsibilities) that have a substantial impact on the
4 enterprise.

5 **D. Non-Executive Equity Program**

6 The Non-Executive Equity Program (“NEEP”) is an annual discretionary equity program
7 that provides senior management an opportunity to retain and recognize employees
8 critical to the current and future performance of the company. Employees can be
9 awarded restricted stock that vests ratably over a three-year period.

10 **Q. IS IT APPROPRIATE FOR THE SOUTH DAKOTA PUBLIC SERVICE**
11 **COMMISSION (“COMMISSION”) TO APPROVE FULL RECOVERY OF**
12 **VARIABLE COMPENSATION EXPENSES?**

13 **A.** Yes. Annual incentive plans like AIP and STIP are prevalent throughout the industry.
14 BHC’s AIP and STIP incentive programs apply to all the Company’s subsidiaries
15 including Black Hills Power. My testimony affirms that the costs included in Black Hills
16 Power’s rate application are representative of the actual costs to provide market-
17 competitive total compensation programs to Black Hills Power and BHSC employees.
18 The structure and philosophy for compensation applied by BHC for employees of Black
19 Hills Power and BHSC are consistent between each of its jurisdictions.

20 Like other utilities confronting this issue of balancing competitive compensation
21 packages to attract and retain skilled employees, Black Hills Power believes that the
22 Commission should recognize all incentive compensation as a prudent and necessary

1 utility expense. Compensation costs paid through these components are an important part
2 of the overall compensation for BHC's employees.

3 The incentive compensation program costs of Black Hills Power are structured to
4 benefit customers directly and indirectly. Customer service is particularly important for
5 an electric utility because it must compete against natural gas and other alternative fuels
6 for every customer. As mentioned above, BHC's strong financial and credit rating
7 position has previously proven to be a benefit to customers. Being able to access and
8 secure necessary financing at reasonable rates during Winter Storm Uri, BHC was able to
9 continue uninterrupted electric service to our customers that would have been more
10 difficult and more expensive without its strong financial position, which is directly
11 supported by employees participating in the incentive plan with a financial metric.

12 If BHC does not offer a competitive compensation package that includes variable
13 pay, BHC may not only be limited in its ability to hire skilled workers, but it could also
14 risk losing employees, or creating perpetual turnover, to other companies that do provide
15 incentive pay as part of a total compensation package. Having an unskilled or less-skilled
16 workforce could leave Black Hills Power and BHSC more vulnerable to operational
17 safety and reliability risks, customer service issues/decline in quality customer service,
18 higher costs due to turnover and the need to constantly recruit and train new employees.

19 The compensation surveys relied upon by BHC demonstrate that total employee
20 compensation, which includes base pay and incentives, would be significantly less
21 competitive without the incentive plan component. Competitive total compensation is
22 equally important across all employee levels, including executives, where variable and
23 equity awards are a larger percentage of overall pay.

1 this proceeding will ensure that the Company can continue to employ and incentivize the
2 talent essential to delivering high-quality service that ratepayers expect and deserve.

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

4 **A. Yes, it does.**

VERIFICATION

This Direct Testimony and Exhibits of Kris J. Pontious is true and accurate to the best of my knowledge, information, and belief.

/s/ Kris J. Pontious

Kris J. Pontious