

Direct Testimony and Exhibits
Thomas D. Stevens

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

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS1

II. PURPOSE OF TESTIMONY2

III. FINANCING PHILOSOPHY.....3

IV. CAPITAL STRUCTURE.....9

V. COST OF LONG-TERM DEBT12

VI. RETURN ON EQUITY AND WEIGHTED AVERAGE COST OF CAPITAL15

VII. PENSION AND RETIREE HEALTHCARE16

VIII. CONCLUSION AND RECOMMENDATIONS19

EXHIBITS

Exhibit TDS-1	Moody’s Rating Methodology 08-06-24
Exhibit TDS-2	S&P Sector Specific Corporate Methodology 07-07-25

TABLE OF ABBREVIATIONS AND ACRONYMS

Aon	Aon Consulting, Inc.
ASC	Accounting Standards Codification
BHC	Black Hills Corporation
BHSC	Black Hills Service Company, LLC
Black Hills Power	Black Hills Power, Inc. d/b/a Black Hills Energy
CNP	CenterPoint Energy
COSS	Cost of Service Study
Commission	South Dakota Public Utilities Commission
FFO	Funds from Operations
GAAP	Generally Accepted Accounting Principles
Healthcare Plan	Black Hills Corporation Retiree Healthcare Plan
Moody's	Moody's Investors Service
OPEB	Other Post Retirement Employee Benefits
Pension Plan	Black Hills Corporation Retirement Plan
<i>Pro Forma</i> Period	The twelve (12) months ending on September 30, 2026 adjusted for known and measurable changes
ROE	Return on Equity
S&P	S&P Global Ratings
Test Period	The twelve (12) months ended September 30, 2025
WACC	Weighted Average Cost of Capital

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Thomas D. Stevens. 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, LLC (“BHSC”), a wholly-owned
7 subsidiary of Black Hills Corporation (“BHC”). My title is Vice President, Treasurer.

8 I lead a team responsible for corporate financing activities, liquidity and cash
9 management, mid-office risk and credit risk management, enterprise risk management,
10 financial planning and analysis, strategic and corporate planning, shareholder services,
11 and overseeing the investments and accounting for benefit plans for BHC and its
12 subsidiaries and affiliates, including Black Hills Power, Inc. d/b/a Black Hills Energy
13 (“Black Hills Power”). My responsibilities also include managing relationships with
14 rating agencies, banking institutions, actuaries, and investment advisors.

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

16 A. I earned a Bachelor of Science degree in Business Administration with a concentration in
17 economics and finance from Southwest Baptist University in 2002 and a Master of
18 Business Administration degree from Southern Methodist University in 2006.

19 After two years of teaching business and economics courses at LCC International
20 University in Lithuania and Southwest Baptist University in Missouri, I began my career
21 in the utility industry in 2008 on the General Staff of the Arkansas Public Service
22 Commission as a rate analyst in the cost allocation and rate design section and later as a
23 financial analyst in the financial analysis section. In 2010, I joined CenterPoint Energy

1 (“CNP”) where I held various positions of increasing responsibility, including Sr.
2 Financial Analyst, Lead Regulatory Analyst, Manager of Regulatory Affairs for CNP’s
3 Arkansas and Oklahoma gas utilities, Director of Regulatory Affairs for CNP’s gas
4 utilities in Texas, and Director of Rates supporting all of CNP’s jurisdictional utilities.

5 I joined BHC in April 2018 as Director of Regulatory with responsibility for
6 Arkansas. In early 2019, my role expanded to Director of Regulatory and Finance for
7 Arkansas and Kansas with responsibilities for all regulatory matters and oversight of
8 financial planning and analysis for BHC’s utilities in Arkansas and Kansas. In June
9 2021, I was promoted to Vice President, Regulatory with oversight of the revenue
10 requirement and regulatory reporting functions and responsibility for regulatory strategy
11 and policy and financial planning and analysis across Arkansas, Iowa, Kansas, Nebraska,
12 South Dakota, and Wyoming. In 2023, I was promoted to my current position as Vice
13 President, Treasurer.

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

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

16 **II. PURPOSE OF TESTIMONY**

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

18 A. In my direct testimony, I discuss the corporate financing philosophy and practices of
19 BHC and explain how they are applicable to this case. I also provide support for Black
20 Hills Power’s proposed capital structure, cost of long-term debt, cost of equity, and the
21 overall weighted average cost of capital (“WACC”). Finally, I recommend the South
22 Dakota Public Utilities Commission (“Commission”) approve Black Hills Power’s
23 proposed levels of pension and retiree healthcare costs.

1 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

2 A. Yes. I am sponsoring the following exhibits:

3 Exhibit TDS – 1 Moody’s Rating Methodology 08-06-24

4 Exhibit TDS – 2 S&P Sector Specific Corporate Methodology 07-07-25

5 **III. FINANCING PHILOSOPHY**

6 **Q. PLEASE DESCRIBE THE MANNER IN WHICH BLACK HILLS POWER’S**
7 **OPERATIONS ARE FUNDED.**

8 A. BHC provides financing for all its utility subsidiaries, including Black Hills Power. BHC
9 performs this role to take advantage of the benefits of economic scale when it accesses
10 public markets on behalf of its utility subsidiaries. Black Hills Power ultimately receives
11 funding via: (1) assignment of debt through intercompany notes payable to BHC based
12 on the weighted average cost of BHC’s pool of senior unsecured debt; (2) wholly or
13 partially retaining its own earnings; and (3) receiving equity infusions from BHC.

14 **Q. PLEASE EXPLAIN BHC’S OVERALL CORPORATE FINANCING**
15 **PHILOSOPHY.**

16 A. BHC is the parent holding company of multiple gas and electric utilities, including Black
17 Hills Power, and BHC also owns and operates complementary non-regulated subsidiaries.
18 BHC’s financing philosophy focuses on maintaining financial integrity and ensuring
19 timely and cost-effective access to capital, in support of the operational needs of its
20 subsidiaries, including Black Hills Power. As a parent company, BHC does not have any
21 operating assets and does not generate any cash flow to support credit metric assessments
22 on its own. The creditworthiness of BHC is based on the financial integrity, regulatory
23 environment, and operational performance of all its subsidiaries. BHC remains

1 committed to maintaining solid investment-grade credit ratings, a strong balance sheet,
2 and overall financial integrity.

3 BHC's financing philosophy remains consistent during periods of increased
4 market uncertainty and volatility, including those triggered by unforeseen economic
5 disruptions such as pandemics, significant weather events, geopolitical tensions, and
6 inflationary or recessionary pressures. Financial integrity is critical to Black Hills
7 Power's ability to satisfy its obligations as a South Dakota public utility and provide
8 electric service to its retail customers.

9 **Q. HOW DO YOU DEFINE FINANCIAL INTEGRITY?**

10 A. In this context, financial integrity means having the financial stability necessary to
11 weather the peaks and valleys of business cycles, volatility in financial markets and
12 interest rates, and unanticipated changes in operational requirements, all of which may
13 strain an organization's ability to finance capital and operating expenditures. A strong
14 financial position provides the flexibility necessary to meet the ongoing demand for
15 regulated public utilities to provide safe and reliable electric service.

16 **Q. PLEASE DESCRIBE HOW INVESTORS EVALUATE A COMPANY'S**
17 **FINANCIAL INTEGRITY.**

18 A. At a high level, investors look to nationally recognized credit rating services to evaluate a
19 company's financial integrity and financial risk profile, and to provide them with an
20 independent assessment of the company's current financial position. BHC maintains
21 credit ratings with two nationally recognized credit rating services: Moody's Investors
22 Service ("Moody's") and S&P Global Ratings ("S&P"). BHC's senior unsecured rating
23 is Baa2 by Moody's and BBB+ by S&P, both with stable outlooks. While Black Hills

1 Power no longer issues its own securities, its issuer credit rating is BBB+ by S&P with a
2 stable outlook. Black Hills Power’s witness, Mr. Adrien M. McKenzie, also covers the
3 topic of how investors evaluate financial integrity in his direct testimony

4 **Q. PLEASE DESCRIBE HOW RATING AGENCIES EVALUATE COMPANIES.**

5 A. Each credit rating service maintains an analytical framework applicable to all rated
6 companies. Rating agencies utilize both qualitative and quantitative factors in
7 determining a company’s credit ratings. For the qualitative factors, rating agencies
8 determine the level of business risk faced by the utility as influenced by the regulatory
9 environment it operates in, its size, scale, and diversity, as well as its operating efficiency
10 measured in terms of safety, reliability, and compliance, among other things. As part of
11 the quantitative assessment, the rating agencies review numerous financial metrics for a
12 given entity, including the ratio of Funds from Operations (“FFO”) to Debt.

13 **Q. CAN YOU PROVIDE ANY INSIGHT AS TO HOW DIFFERENT RATING**
14 **AGENCIES CONSIDER THE GENERAL FACTORS YOU HAVE IDENTIFIED?**

15 A. Moody’s has identified four key factors considered in completing their credit analysis for
16 regulated utility companies and has provided guidance as to how those factors are
17 weighted.¹ The key factors include: (1) regulatory framework (25%); (2) ability to
18 recover costs and earn reasonable returns (25%); (3) diversification (10%); and (4)
19 financial strength and liquidity (40%).

20 S&P’s assessment of a utility’s business risk profile also focuses on the regulatory
21 environment and the utility’s ability to recover costs and earn reasonable returns.

22 Specifically, S&P considers four regulatory environment subfactors: (1) regulatory

¹ Moody’s Investor Service Ratings Methodology for Regulated Electric and Gas Utilities, August 6, 2024.

1 stability, including rate setting transparency, predictability of ratemaking decisions, and
2 consistency over time; (2) tariff-setting procedures and tariff designs that ensure the
3 recoverability of all operating and capital costs, balancing the interests of all
4 stakeholders, and provide appropriate incentives; (3) the existence of financial stability,
5 including the timeliness of cost recovery, flexibility to recover unexpected costs,
6 attractiveness to investors, and capital support during construction to reduce cash flow
7 pressure; and (4) regulatory independence and insulation that supports the utility's long-
8 term ability to receive financing and reduce the risk of political intervention to protect the
9 utility's credit profile, even during a stressful event.²

10 **Q. ARE THERE ANY EVOLVING CONSIDERATIONS IMPACTING THE**
11 **MANNER IN WHICH AGENCIES ARE EVALUATING THE LEVEL OF RISK**
12 **POSED BY ELECTRIC UTILITIES?**

13 A. Yes, more recently, when assessing the level of risk posed by electric utilities, credit
14 rating agencies have placed increased emphasis on the risk presented by wildfires. In
15 fact, on May 9, 2024, S&P completed a wildfire review of BHC and increased BHC's
16 FFO to debt downgrade and upgrade thresholds, each by 100 basis points, as a result of
17 S&P's view of wildfire risk in parts of BHC's service areas, including South Dakota.
18 FFO to debt is a leverage ratio that measures the amount of cash flow available to service
19 debt. The FFO to debt downgrade threshold is the ratio that could trigger a downgrade
20 by the rating agency if performance is sustained below the established threshold.
21 Conversely, the FFO to debt upgrade threshold is the ratio at which an issuer could be
22 upgraded by the rating agency if performance is sustained above that threshold. An

² S&P Specific-Sector Corporate Methodology for the Regulated Utilities Industry, July 7, 2025.

1 increase in the FFO to debt ratio can be achieved by increased cash flows, decreased
2 leverage, or a combination of both. Although S&P increased BHC's FFO to debt
3 downgrade threshold, S&P affirmed BHC's BBB+ issuer credit rating based on S&P's
4 expectation that BHC's FFO to debt will consistently remain above S&P's revised
5 downgrade threshold.

6 **Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THESE EXAMPLES?**

7 A. It is reasonable to conclude that a constructive regulatory climate will positively impact
8 credit assessments and resulting credit ratings. On the other hand, decisions in the
9 ratemaking context that negatively impact a rating agency's risk assessment will also
10 negatively impact resulting credit ratings. As such, regulatory decision making related to
11 capital structure, cost of debt, Return on Equity ("ROE"), and cost recovery mechanisms
12 impact not only a utility's current and future cash flow, but also its credit metrics. In
13 addition, it is reasonable to conclude that specific risks, such as wildfire, which rating
14 agencies view as elevated in the electric utility space, will likely impact electric utility
15 credit ratings.

16 **Q. HOW DO CREDIT RATINGS AFFECT A COMPANY'S ABILITY TO ISSUE**
17 **DEBT?**

18 A. Credit ratings affect a company's ability to issue debt in two ways. First, the lower the
19 credit rating, the greater the credit risk premium required from investors. Second, a
20 lower rating limits the number of potential investors interested in a company's debt
21 securities, effectively reducing the size of the market. Both circumstances tend to
22 increase the overall cost of debt.

1 **Q. PLEASE EXPLAIN HOW BHC'S CREDIT RATINGS IMPACT BLACK HILLS**
2 **POWER.**

3 A. Black Hills Power does not directly access the capital markets, so its liquidity needs and
4 sources of financing on a going-forward basis are provided through BHC. In general, a
5 strong investment-grade credit rating at BHC results in more favorable credit terms,
6 greater access to capital, and a lower cost of debt overall. In addition, an investment
7 grade credit rating at BHC will result in lower interest costs for Black Hills Power, which
8 benefits its customers. Finally, a strong credit rating affords BHC the financial strength
9 to attract funding for investments in Black Hills Power's utility operating system to meet
10 the needs of customers.

11 **Q. PLEASE DESCRIBE THE FINANCIAL INTEGRITY OF BLACK HILLS**
12 **POWER.**

13 A. As previously discussed, BHC is committed to maintaining solid investment-grade credit
14 ratings, a strong balance sheet, and overall financial integrity. Accordingly, the goal of
15 Black Hills Power is to establish and sustain strong stand-alone financial integrity and to
16 positively contribute to the maintenance of financial integrity and investment grade credit
17 for BHC. If BHC's credit metrics are weak, its ability to obtain short and long-term
18 financing, favorable financing costs, and vendor payment terms, including collateral
19 requirements, will be negatively impacted. While the financial integrity of Black Hills
20 Power, like many other utilities, has faced challenges due to inflation, volatility in
21 financial markets and interest rates, and extreme winter weather events, Black Hills
22 Power has diligently maintained a strong balance sheet and continues to maintain
23 financial flexibility and cost-effective access to capital markets via financing from BHC.

1 **Q. PLEASE DESCRIBE HOW BLACK HILLS POWER’S AUTHORIZED CAPITAL**
2 **STRUCTURE, COST OF DEBT, AND ROE IMPACT ITS FINANCIAL**
3 **INTEGRITY.**

4 A. These factors have an important impact on the financial integrity of Black Hills Power,
5 which in turn is important to the overall financial health and integrity of BHC. First, the
6 authorized ROE and capital structure impact the ability to fund capital investments with
7 internally generated funds. Investors expect BHC, via its subsidiaries, to be able to
8 internally generate cash from operations to substantially fund its capital investments
9 instead of accessing additional capital in the markets. Second, the capital structure and
10 WACC have an impact on credit metrics. Several financial and credit metrics are driven
11 by cash flow and the ability of BHC to cover interest and debt obligations in the future.
12 A lower equity ratio and ROE reduce cash flow metrics such as the FFO to Debt ratio and
13 the FFO to interest ratio. These cash flow metrics are utilized by rating agencies and
14 investors to measure a company’s ability to service and repay its debt obligations.
15 Finally, the ability of Black Hills Power to recover its costs in a timely manner and earn a
16 fair return on its investments is expected by both investors and rating agencies. These
17 parties take into consideration the nature of the regulatory environment in which a
18 company operates to assess business risk and the ability of the company to meet future
19 obligations.

1 **Q. IS THE REQUESTED CAPITAL STRUCTURE IN THIS PROCEEDING**
2 **REASONABLE?**

3 A. Yes. The Company targets an approximate 53% equity-to-capitalization level, in line
4 with how electric utility companies are commonly capitalized across the industry and
5 believes this is a reasonable capitalization level and appropriate to support BHC's
6 investment grade rating. As discussed in the Direct Testimony of Mr. McKenzie and
7 referred to in Exhibit AMM-4, page 3, the Company's proposed equity level is
8 comparable with the equity levels for other electric utility operating companies, which
9 reflects an average equity level of 53.10%.

10 **Q. WOULD IT BE APPROPRIATE FOR THE COMMISSION TO ADOPT THE**
11 **CAPITAL STRUCTURE OF BHC, BLACK HILLS POWER'S PARENT**
12 **COMPANY, FOR PURPOSES OF SETTING RATES IN THIS RATE REVIEW?**

13 A. No. Black Hills Power's capital structure for the *Pro Forma* Period best reflects the
14 capital structure Black Hills Power expects to maintain on a stand-alone basis to support
15 its electric utility operations. In contrast, financing decisions at the parent entity consider
16 non-regulated business lines, non-utility assets, and other ring-fenced utilities (gas and
17 electric). Such non-utility considerations make the parent capital structure an
18 inappropriate measure of the capitalization requirements of Black Hills Power.

19 **Q. WHAT PROCESS DO YOU FOLLOW TO ENSURE THAT BLACK HILLS**
20 **POWER IS PROPERLY CAPITALIZED?**

21 A. On a quarterly basis, the capital structure of each regulated utility subsidiary is reviewed.
22 Since BHC finances the investments of its regulated utilities with a combination of long-
23 term debt and equity based on a targeted balanced capital structure, adjustments are made

1 periodically as changes in rate base and capital structure mix occur. The current capital
2 structure is analyzed to determine if the utility has a need for more long-term debt or
3 equity to finance its net investments or, alternatively, if the utility has cash flow to pay a
4 dividend to the parent or pay down debt.

5 **Q. PLEASE EXPLAIN HOW BLACK HILLS POWER’S FINANCING PRACTICES**
6 **AND PROPOSED CAPITAL STRUCTURE ARE IN THE PUBLIC INTEREST.**

7 A. Black Hills Power’s financing practices focus on maintaining financial integrity and the
8 ability to access capital, when needed, at a reasonable cost. The level of equity capital
9 committed by BHC to Black Hills Power prudently mitigates business risk, particularly in
10 times of market volatility. The level of debt in the capital structure achieves cost-
11 effective debt financing utilizing economies of scale in the debt marketplace.

12 **V. COST OF LONG-TERM DEBT**
13

14 **Q. WHAT IS THE PROPOSED COST OF LONG-TERM DEBT FOR BLACK HILLS**
15 **POWER?**

16 A. As detailed in Statement G of the COSS, Black Hills Power proposes to use the cost of
17 long-term debt of 5.50%, which is Black Hills Power’s anticipated cost of debt as of
18 September 30, 2026, the end of the *Pro Forma* Period. As discussed below, the proposed
19 cost of long-term debt of 5.50% represents a slight increase to Black Hills Power’s Test
20 Period cost of debt of 5.48% due to a planned refinancing in the latter half of 2026.

21 **Q. PLEASE EXPLAIN THE METHODOLOGY FOR DETERMINING THE COST**
22 **OF LONG-TERM DEBT FOR BLACK HILLS POWER.**

23 A. The cost of long-term debt for Black Hills Power is calculated using the weighted-
24 average cost of all long-term debt issued and outstanding by BHC to determine the long-
25 term debt rate for the intercompany notes payable to BHC. Additionally, Black Hills

1 Power's cost of long-term debt includes the weighted cost of outstanding indentures
2 secured by its assets under first-mortgage bonds.

3 **Q. PLEASE EXPLAIN HOW ISSUING DEBT AT BHC ON BEHALF OF BLACK**
4 **HILLS POWER PRODUCES ECONOMIES OF SCALE, WHICH BENEFITS**
5 **BLACK HILLS POWER AND ITS CUSTOMERS.**

6 A. Due to the size of many of BHC's regulated utilities, including Black Hills Power, it is
7 more cost effective and efficient to issue larger tranches of index-eligible debt at the
8 parent level and make assignments of this debt to the various subsidiaries through
9 intercompany notes. Index-eligible debt is more liquid and provides investors with the
10 ability to trade the instrument more efficiently in the market, if necessary. This liquidity
11 is viewed positively by bond investors since the larger and more liquid the bond
12 instrument is, the more opportunities an investor has to trade the instrument.

13 For example, the Bloomberg U.S. Corporate Investment Grade Bond Index,
14 which is a key benchmark index for investment grade debt, requires a minimum tranche
15 size for index inclusion of \$300 million. Many investors use this index to benchmark
16 their debt and will not invest in non-index eligible bonds. Fewer investors translate into
17 less liquidity and higher bond costs for issuers. Because the majority of BHC's
18 subsidiaries, including Black Hills Power, do not have financing needs that reach the
19 \$300 million debt minimum, BHC aggregates its financing needs for its subsidiaries,
20 issues index-eligible debt tranches at the parent level and makes intercompany debt
21 assignments to the subsidiaries to provide the benefits of economic scale to customers.

1 **Q. WHY DOES THIS WEIGHTED AVERAGE COST OF DEBT ASSIGNMENT**
2 **METHODOLOGY REMAIN REASONABLE?**

3 A. Under this methodology, each subsidiary receives assigned debt at the same interest rate
4 based on the parent company's weighted-average cost of debt. This allows customers to
5 benefit from the economics of scale in issuing index-eligible bonds.

6 **Q. HAS BHC COMPLETED ANY NEW LONG-TERM DEBT ISSUANCES SINCE**
7 **SEPTEMBER 30, 2025, AND DOES BHC PLAN TO ISSUE NEW DEBT PRIOR**
8 **TO THE *PRO FORMA* PERIOD ENDING SEPTEMBER 30, 2026?**

9 A. Yes, BHC issued new long-term debt in October 2025 to refinance debt that was maturing
10 in January 2026. BHC's next bond maturity is in January 2027, and BHC is evaluating
11 the timing and amount for that refinancing. Within Black Hills Power's proposed cost of
12 long-term debt of 5.50%, the Company has included a planned refinancing in the latter
13 half of 2026 in the continued higher long-term interest rate environment. Black Hills
14 Power will update the status of this financing at the appropriate time in the proceeding.

15 **Q. PLEASE EXPLAIN HOW THE AMOUNT OF LONG-TERM DEBT REFLECTED**
16 **IN BLACK HILLS POWER'S TEST PERIOD AND *PRO FORMA* PERIOD**
17 **CAPITAL STRUCTURE WAS DETERMINED.**

18 A. The components of long-term debt included within the capital structure at the end of the
19 Test Period and *Pro Forma* Period for Black Hills Power are shown in Statement G page
20 2 of the COSS. Black Hills Power's long-term debt is supported by a combination of
21 both first mortgage bonds, historically issued by Black Hills Power, and an assigned
22 portion of debt issued by BHC and reflects the weighted average cost of debt for all

1 BHC-issued debt and Black Hills Power first mortgage bonds as of September 30, 2025,
2 and projected as of the end of the *Pro Forma* Period, September 30, 2026.

3 **VI. RETURN ON EQUITY AND WEIGHTED AVERAGE**
4 **COST OF CAPITAL**

5 **Q. WHO IS THE COMPANY'S ROE WITNESS IN THIS CASE AND WHAT IS THE**
6 **RANGE OF THE ROE BEING RECOMMENDED?**

7 A. Black Hills Power witness McKenzie provides the ROE analysis in this case. Mr.
8 McKenzie explains his application of a number of recognized methodologies for
9 estimating the cost of capital and recommends a cost of equity range from 10.0% to
10 11.0%.

11 **Q. BASED ON THIS ANALYSIS, WHAT ROE IS BLACK HILLS POWER**
12 **REQUESTING IN THIS RATE REVIEW FILING?**

13 A. The Company requests an ROE of 10.5%.

14 **Q. WHEN THE REQUESTED ROE IS CONSIDERED TOGETHER WITH THE**
15 **COMPANY'S CAPITAL STRUCTURE AND COST OF DEBT, WHAT IS THE**
16 **RESULTING WACC?**

17 A. Black Hills Power is requesting a WACC of 8.16% so that it has a reasonable opportunity
18 to earn a fair return on the investments necessary to provide safe and reliable service to
19 its Black Hills Power South Dakota customers. The requested WACC also supports
20 maintenance of Black Hills Power's financial integrity and ability to attract capital on
21 reasonable terms.

1 **VII. PENSION AND RETIREE HEALTHCARE COSTS**

2 **Q. PLEASE PROVIDE AN OVERVIEW OF TOPICS YOU WILL COVER**
3 **RELATING TO PENSION AND RETIREE HEALTHCARE.**

4 A. I will provide an overview of BHC’s pension plan and retiree healthcare plan (Other
5 Postretirement Employee Benefits or (“OPEB”). In addition, I will describe and support
6 the pension and retiree health care expense included in the *Pro Forma* Period COSS.

7 **Q. PLEASE PROVIDE AN OVERVIEW OF BHC’S PENSION PLAN.**

8 A. BHC has one defined benefit pension plan, the Black Hills Corporation Retirement Plan
9 (“Pension Plan”). The Pension Plan covers certain eligible employees of Black Hills
10 Power and employees of BHSC who provide services in support of Black Hills Power
11 business operations. The benefits for the Pension Plan are based on years of service and
12 calculations of average earnings during a specific period prior to retirement. The Pension
13 Plan is closed to new employees and frozen for certain employees who did not meet age
14 and service-based criteria, as of January 1, 2010.

15 **Q. PLEASE PROVIDE AN OVERVIEW OF BHC’S RETIREE HEALTHCARE**
16 **PLAN.**

17 A. BHC has one retiree healthcare plan, the Black Hills Corporation Retiree Healthcare Plan
18 (“Healthcare Plan”), for employees who meet certain age and service requirements at
19 retirement. Healthcare Plan benefits are subject to premiums, deductibles, co-payment
20 provisions, and other limitations. Pre-65 retirees as well as a grandfathered group of post-
21 65 retirees receive their retiree healthcare benefits through the BHC self-insured retiree
22 healthcare plans. Healthcare coverage for post-65 Medicare-eligible retirees is provided
23 through an individual market healthcare exchange.

1 **Q. GIVEN THAT THE PENSION PLAN IS CLOSED, WHAT ARE BHC'S**
2 **CONTINUING OBLIGATIONS?**

3 A. Although the Pension Plan is closed to new entrants, certain active participants who met
4 age and years of service criteria at the time the plan was closed to new entrants continue
5 to accrue benefits which impacts the ongoing financial obligation. Additionally, BHC has
6 a continuing obligation to oversee the Pension Plan to ensure adequate funding will be
7 available for future benefit payments to the program participants at retirement. This
8 ongoing obligation requires BHC to complete Pension Plan valuations to determine the
9 financial impact to assets, liabilities, expenses, and gains and losses of the plan. BHC
10 engages Aon Consulting, Inc. ("Aon") as its actuary to complete the pension valuation
11 process.

12 **Q. PLEASE DESCRIBE WHAT BLACK HILLS POWER IS REQUESTING TO**
13 **RECOVER IN RELATION TO PENSION AND RETIREE HEALTHCARE**
14 **EXPENSE.**

15 A. Black Hills Power is requesting recovery of the *Pro Forma* Period 2026 accrual amounts
16 being recorded for net periodic pension expense and net periodic retiree healthcare
17 expense. The pension and retiree healthcare expenses are specifically comprised of net
18 periodic pension and net periodic retiree healthcare costs accounted for under an accrual
19 method in accordance with Generally Accepted Accounting Principles ("GAAP"). Every
20 January, Aon issues an updated actuarial study of BHC's pension and retiree healthcare
21 plans that forms the basis of the Company's pension and retiree healthcare expense
22 accruals to be recorded that year in accordance with Accounting Standards Codification
23 ("ASC") 715.

1 **Q. PLEASE EXPLAIN THE KEY ASSUMPTIONS USED TO DETERMINE BLACK**
2 **HILLS POWER’S PENSION AND RETIREE HEALTHCARE EXPENSES EACH**
3 **YEAR.**

4 A. Several assumptions, which are reviewed and approved by BHC, are incorporated by Aon
5 when completing pension and retiree healthcare valuations and determining the
6 forecasted financial impact and future annual pension and retiree healthcare expense.
7 Key assumptions include discount rates, which are based on yields for high-quality
8 corporate bonds, expected rates of return on plan assets based on current fixed income
9 and equity capital market assumptions and asset allocation targets, and a mortality table
10 approved and provided intermittently by the Society of Actuaries. Other pension
11 valuation assumptions related to plan participants include, but are not limited to, rate of
12 pay, retirement rates, withdrawal rates, and rate of inflation. Additionally, specific to
13 retiree healthcare, assumptions regarding healthcare cost trends, retirement rates,
14 mortality tables, and medical participation rates are considered.

15 **Q. PLEASE DESCRIBE THE COMPONENTS OF PENSION AND RETIREE**
16 **HEALTHCARE NET PERIODIC COSTS.**

17 A. Pension and retiree healthcare expense accruals for net periodic expense are made up of
18 several specific sub-components, including:

- 19 1. Service cost - the value of benefits that employees will earn during the current
20 year;
- 21 2. Interest cost - changes in the present value of the benefits that plan participants
22 have earned in previous years;

- 1 3. Expected return on assets - investment earnings on plan assets that are expected to
2 be earned during the year;
- 3 4. Amortization of unrecognized net gains and losses - recognition of costs (or
4 income) from experience that differs from the assumptions (e.g., discount rate
5 changes, investment earnings different than assumed); and
- 6 5. Amortization of unrecognized prior service cost - recognition of the cost of
7 benefit changes the plan sponsor provides for service the employees have already
8 performed.

9 **Q. PLEASE SUMMARIZE THE PENSION AND RETIREE HEALTHCARE**
10 **EXPENSE AMOUNT INCLUDED IN THE *PRO FORMA* PERIOD COSS.**

11 A. Black Hills Power included \$539,081 in pension-related costs and \$423,734 in retiree
12 healthcare-related costs on Schedule H-10 in the *Pro Forma* Period COSS. These
13 amounts consist of direct and allocated net periodic pension expenses and retiree
14 healthcare costs and amortization of unrecognized prior service costs. These figures are
15 expected to be updated as the case progresses to incorporate the most recent actuarial
16 data received in early 2026.

17 **VIII. CONCLUSION AND RECOMMENDATIONS**

18 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

19 A. I recommend that the Commission approve Black Hills Power's actual *Pro Forma* Period
20 capital structure consisting of 53.21% equity and 46.79% long-term debt and that the
21 Commission also approve Black Hills Power's cost of long-term debt at 5.50%.
22 Combined with the recommended return on equity of 10.5% supported by Company
23 witness Mr. McKenzie, I recommend the Commission approve Black Hills Power's

1 WACC of 8.16%. For pension and retiree healthcare related costs, I recommend that the
2 Commission establish these costs by referencing the most up-to-date actuarial report
3 available, anticipated in early 2026, as the report becomes the basis for recording the
4 2026 net periodic expense. Updating the COSS with the 2026 actuarial report data best
5 represents Black Hills Power's known and measurable benefits expenses.

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

7 A. Yes.

VERIFICATION

This Direct Testimony and Exhibits of Thomas Stevens is true and accurate to the best of my knowledge, information, and belief.

s/ Thomas Stevens

Thomas Stevens