Direct Testimony and Exhibit
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 Approval to Amend its Phase In Plan Rate

Docket No. EL26-_____

August 4, 2026

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EXHIBIT

TABLE OF ABBREVIATIONS AND ACRONYMS

2014 Rate Review Proceeding	Black Hills Power Rate Review Proceeding Docket No. EL14-026
ADIT	Accumulated Deferred Income Taxes
BHC	Black Hills Corporation
BHSC	Black Hills Service Company, LLC
Black Hills Power	Black Hills Power, Inc. d/b/a Black Hills Energy
CPGS	Cheyenne Prairie Generating Station
kWh	Kilowatt Hour Usage
O&M	Operations & Maintenance Expense
PIPR	Phase in Plan Rate
WACC	Weighted Average Cost of Capital

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. PLEASE DESCRIBE YOUR EMPLOYMENT.

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

Q. PLEASE DESCRIBE YOUR EDUCATION AND BUSINESS BACKGROUND.

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

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

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

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

Q. FOR WHOM ARE YOU TESTIFYING?

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

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Black Hills Power's Application requests approval to update its existing Phase in Plan Rate ("PIPR") tariff to recover the costs associated with the Lange II Project beginning in December 1, 2026, the project's anticipated in-service date. The proposed PIPR is designed to provide a timely and transparent means of recovering project costs while delivering customer benefits through annual true-ups, declining rate base, and the recognition of Accumulated Deferred Income Taxes ("ADIT").

The Lange II Project represents a significant investment in a generation resource necessary to meet customer energy needs and maintain reliable electric service. Under the proposed PIPR, Black Hills Power has calculated a total revenue requirement of approximately $46 million for the first year of operation, of which $39.5 million is allocated to South Dakota customers using the jurisdictional and class allocation methodologies proposed in Docket No. EL26-003.

My testimony (i) sponsors and summarizes Black Hills Power's PIPR Application; (ii) provide a summary of Black Hills Power's PIPR Cost of Service Model; and (iii) provide a summary of the topics other Black Hills Power witnesses will address and support through their testimony and exhibits.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes. I am sponsoring the following exhibit(s):

Exhibit JSH-1 PIPR Cost of Service

III. OVERVIEW OF THE PIPR

Q. PLEASE GIVE A SUMMARY OF BLACK HILLS POWER'S PIPR

A. SDCL §§ 49-34A-73 through 49-34A-78 allows for the recovery of plant in-service and approved construction work in progress outside of a general rate case. Black Hills Power first established the PIPR in Docket No. EL12-062 to recover certain costs while constructing the Cheyenne Prairie Generating Station ("CPGS"). Black Hills Power's PIPR was set to zero in EL14-026, when CPGS was put into base rates.

Q. PLEASE GIVE AN OVERVIEW OF BLACK HILLS POWER'S PIPR APPLICATION.

A. Black Hills Power is seeking revisions to its existing PIPR tariff schedule to incorporate up-to-update PIPR methodology consistent with those proposed in Docket No. EL26-003 and to establish PIPR rates by customer class for recovery of costs associated with the Lange II Project. Lange II Project details can be found in the Direct Testimony of Mr. Mark Lux[1] and tariff revisions can be found in Exhibits 2 and 3 to the Application.

[1] Exhibit 5 to the Application.

Q. WHY IS BLACK HILLS POWER FILING TO RECOVER THE LANGE II PROJECT THROUGH THE PIPR RATHER THAN A GENERAL RATE CASE?

A. The Lange II Project is estimated to cost $320.4 million, which will be Black Hills Power's largest capital project. Instead of including the Lange II Project in base rates Black Hills Power is proposing to include the project in the PIPR. Seeking recovery of the Lange II Project through the PIPR provides customer benefits that would not occur if the project was recovered through base rates. These benefits include a declining rate base the annual recognition of ADIT.

Q. HOW DO THESE BENEFITS HELP CUSTOMERS?

A. By including the Lange II Project in a rider that gets trued-up on an annual basis, customers will receive the benefit of declining rate base which is a reduction to rate base of approximately $11.4 million per year. ADIT also benefits customers by including the Lange II Project in a rider instead of base rates. For the purposes of this revenue requirement ADIT is calculated as follows:

((tax depreciation - book depreciation) * 21% + the prior period ADIT balance)

Because assets are typically depreciated more rapidly for tax purposes than book purposes, ADIT balances increase during the early years of an asset's life and provide an offset to rate base that benefits customers. Collectively, these benefits make the PIPR a lower-cost recovery mechanism over time relative to immediate rate base inclusion.

Q. WHAT EFFECTIVE DATE IS BLACK HILLS POWER REQUESTING?

A. Black Hills Power is requesting the PIPR rate to become effective December 1, 2026, which coincides with the in-service date of the Lange II Project. If the Commission has not issued a final decision by December 1, 2026, Black Hills Power requests the authority

to implement the proposed PIPR rate on an interim basis, subject to refund. This effective date aligns with the projected in-service date of the Lange II Project and ensures that cost recovery begins only after the asset is placed in service.

IV. SUMMARY OF THE BLACK HILLS POWER'S PIPR COST OF SERVICE MODEL

Q. PLEASE SUMMARIZE HOW BLACK HILLS POWER CALCULATED THE PIPR.

A. The rate calculation, as well as the Cost of Service calculation for the PIPR, is contained in Exhibit JSH-1. To establish the PIPR rates, Black Hills Power first calculated a total company Cost of Service for the Lange II Project. The Cost of Service was then allocated to the South Dakota jurisdiction based on the allocators and methodology proposed by Black Hills Power in their pending rate case in Docket No. EL26-003.[2] The South Dakota jurisdiction Cost of Service was then allocated to the customer classes based on the allocators and methodology proposed by Black Hills Power in their pending rate case Docket No. EL26-003 to come up with a customer class Cost of Service.[3] The customer class Cost of Service was then divided by each customer classes forecasted kilowatt hour usage ("kWh") to calculate an annual $/kWh rate for each customer class that is proposed to be charged in order to recover the South Dakota jurisdictional revenue requirement associated with the Lange II Project.

[2] The jurisdictional allocators reflected in Exhibit JSH-1 are based on the most current information available in Docket No. EL26-003, including corrections and updates provided through the discovery process. Black Hills Power will update the PIPR calculation, as necessary, to reflect changes adopted by the Commission in Docket No. EL26-003.

[3] The customer class allocators reflected in Exhibit JSH-1 are based on the most current information available in Docket No. EL26-003, including corrections and updates provided through the discovery process. Black Hills Power will update the PIPR calculation, as necessary, to reflect changes adopted by the Commission in Docket No. EL26-003.

Q. PLEASE DESCRIBE THE LANGE II PROJECT COST OF SERVICE.

A. The Cost of Service for the Lange II Project is a traditional revenue requirement calculation including rate base, Operations & Maintenance Expense ("O&M"), depreciation expense, a return on equity, return on debt and income tax expense. The plant in- service estimate used for the calculation of rate base is approximately $320.4 million, accumulated depreciation is detailed on the Depreciation tab included in Exhibit JSH-1 and utilizes the depreciation rates proposed by Black Hills Power in Docket No. EL26-003 which are contained in the Direct Testimony and Exhibits of Mr. John J. Spanos filed in that docket. The tax depreciation is calculated on the Tax Depreciation tab of Exhibit JSH-1 utilizing the appropriate MACRS depreciation rates to calculate ADIT which reduces rate base, more detail on ADIT is explained earlier in my testimony where I explain the benefits of the PIPR.

The annual O&M expense is estimated to be approximately $4 million a year and is also detailed in the Direct Testimony of Mark Lux.[4] The Rate of Return ("ROR") or Weighted Average Cost of Capital ("WACC") used to calculate the Return on Equity and Debt is shown on WACC tab of Exhibit JSH-1 and is detailed in Docket No. EL26-003[5].

The calculation results in an approximately $46 million total Cost of Service for the first year and is the basis for the State Allocated Cost of Service as well as the Rate Calculation.

[4] Exhibit 5 to the Application.

[5] The WACC reflected in Exhibit JSH-1 are based on the most current information available in Docket No. EL26-003, including corrections and updates provided through the discovery process. Black Hills Power will update the PIPR calculation, as necessary, to reflect changes adopted by the Commission in Docket No. EL26-003.

Q. HOW WAS THE COST OF SERVICE FOR THE LANGE II PROJECT ALLOCATED TO SOUTH DAKOTA CUSTOMERS?

A. Out of the approximately $46 million total Cost of Service associated with the Lange II project, approximately $39.5 million is allocated to South Dakota customers. The rate base items, O&M and depreciation amounts were allocated based on the allocators further explained in Docket No. EL26-003 Direct Testimony and Exhibits of Douglas N. Hyatt. The same methodology applies to both the State Allocated Cost of Service as well as the customer class Allocation of the Cost of Service.

Q. HOW WERE THE RATES CALCULATED?

A. Each customer class Allocation of the Cost of Service was divided by the total estimated kWh usage to come up with a dollar per kWh rate. The usage is shown on the Customer Usage Tab of Exhibit JSH-1 and is consistent with the billing determinants contained in Docket No. EL26-003 – Exhibit EJF1,4,7 and DNH-1,7,8.

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

A. The bill impact of the proposed rates for Residential and General Service customers is shown below in Table JSH-1 and are illustrative and based on usage assumptions consistent with those used in Docket No. EL26-003:

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

	Total Average Monthly Bill			
Customer Class	**Under[6] Current Rates**	**Under Proposed Rates**	**Change**	**%**
Residential Regular Service	$124.08	$143.79	$19.70	15.88%
Residential Total Electric Service	$167.18	$198.58	$31.40	18.78%
Residential Demand Service	$253.41	$304.93	$51.52	20.33%
Small General Service	$183.51	$207.77	$24.26	13.22%
General Service	$2,010.05	$2,301.95	$291.89	14.52%
General Service Total Electric	$550.28	$630.53	$80.25	14.58%

Q. ARE THE BILL IMPACTS SHOWN IN TABLE JSH-1 INTENDED TO REPRESENT ACTUAL CUSTOMER BILLS?

A. No. The bill impacts are illustrative and are based on representative usage assumptions. Actual customer bill impacts will vary based on induvial usage patterns and service characteristics.

Q. HOW WILL INPUTS IN THE PIPR BE ADJUSTED AS DOCKET NO. EL26-003 PROGRESSES?

A. Docket No. EL26-003 is an ongoing proceeding, certain inputs used to calculate the PIPR rate are contingent on the outcome of that docket. Items such as depreciation, WACC, jurisdictional and customer class allocators could change depending on the outcome of Docket No. EL26-003. As discovery and settlement negotiations progress with South Dakota Public Utilities Commission Staff ('Staff") and other intervenors, Black Hills Power will adjust the PIPR for known adjustments in the docket. If final Commission approval of Docket No. EL26-003 occurs after PIPR approval, Black Hills Power will adjust the PIPR rate in the next year's filing when Black Hills Power trues up the rate for

[6] As filed in Docket No. EL26-003.

changes in the forecasted cost of service and under or over recovery in the balancing account.

Q. HOW WILL THE PIPR BE UPDATED ON AN ANNUAL BASIS?

A. On an annual basis Black Hills Power will submit a filing that trues-up the forecasted cost of service by including actual plant-in-service, accumulated depreciation, ADIT, O&M and depreciation. The difference between the actual cost of service and the forecasted cost of service will be a component of the over/under recovery in addition to the natural differences any rider has that occurs due to variation in actual customer usage versus forecasted usage. The under/over recovery will then be added to the forecasted cost of service for the next year to calculate the new proposed PIPR rates. The jurisdictional, customer class allocators and WACC will stay static based on the final Commission Order in Docket No. EL26-003.

Q. HOW LONG WILL THE PIPR BE IN EFFECT?

A. The PIPR will be in effect and updated annually until Black Hills Power files a general rate case and the Lange II project is removed from the PIPR and is included in base rates. At this point the PIPR will be reset to zero.

Q. IS BLACK HILLS POWER SEEKING RECOVERY OF ANY COSTS OTHER THAN THOSE ASSOCIATED WITH THE LANGE II PROJECT THROUGH THE PIPR FILING?

A. No. The proposed PIPR rates only recover the costs associated with the Lange II Project, including the related return, depreciation, taxes, and operation and maintenance expense reflected in Exhibit JSH-1.

V. BLACK HILLS POWER WITNESSES

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

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

Jerrad S. Hammer, Director – Regulatory

The purpose of my testimony is set forth above.

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

Mr. Lux supports the need for new generation and the decision to build Lange II, as well as provides a detailed description of the project and the associated costs.

Amanda M. Thames, Resource Planning Manager

Ms. Thames explains the need for and selection of the Lange II Project to address Black Hills Power's capacity deficit and describes the analytical process and reserve margin assumptions supporting the project.

VI. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Black Hills Power respectfully requests that the Commission approve the proposed revisions to Black Hills Power's PIPR tariff and authorize the recovery of the costs associated with the Lange II Project through the PIPR effective December 1, 2026. The proposed PIPR is consistent with South Dakota law, provides customers with the benefits of annual true-ups and declining rate base, and represents a reasonable means of recovering costs of significant investment necessary to maintain reliable electric service for Black Hills Power customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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