Before the South Dakota Public Utilities Commission
State of South Dakota

In the Matter of the Joint Application of NorthWestern Energy Public Service Corporation, Black Hills Corporation, and NorthWestern Energy Group, Inc. for Approval of Merger

Docket No. GE25-_____

Direct Testimony of Thomas D. Stevens
on Behalf of Black Hills Corporation
in Support of the Joint Application

October 27, 2025

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EXHIBITS

Confidential Exhibit TDS-1	Black Hills' S&P Credit Ratings Report 08-19-25
Exhibit TDS-2	Black Hills' Moody's Ratings Affirmation Press Release 08-19-25
Confidential Exhibit TDS-3	Black Hills' Moody's Credit Ratings Report 08-27-25

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas D. Stevens. My business address is 7001 Mt. Rushmore Rd., Rapid City, South Dakota 57702.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Black Hills Service Company, LLC ("BHSC"), a wholly-owned subsidiary of Black Hills Corporation ("Black Hills"). My title is Vice President, Treasurer.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Black Hills in support of the joint application requesting approval for the Merger.[1]

II. STATEMENT OF QUALIFICATIONS

Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. I lead a team responsible for corporate financing activities, liquidity and cash management, commodity and credit risk management, financial planning and analysis, strategic corporate planning, shareholder services, and overseeing the investments and accounting for benefit plans for Black Hills and its subsidiaries and affiliates. My responsibilities also include managing relationships with rating agencies, banking institutions, actuaries, and investment advisors.

[1] The "Merger" is defined in the Joint Application and merger agreement provided with Mr. Brian Bird's Direct Testimony.

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I began my career in the utility industry in 2008 with the General Staff of the Arkansas Public Service Commission as a rate analyst in the cost allocation and rate design section and later as a financial analyst in the financial analysis section. In 2010, I joined CenterPoint Energy ("CNP") where I held various positions of increasing responsibility, including Senior Financial Analyst, Lead Regulatory Analyst, Manager of Regulatory Affairs for CNP's Arkansas and Oklahoma gas utilities, Director of Regulatory Affairs for CNP's gas utilities in Texas, and Director of Rates supporting all of CNP's jurisdictional utilities.

I joined Black Hills in April 2018 as Director of Regulatory with responsibility for Arkansas. In 2019, my role expanded to Director of Regulatory and Finance for Arkansas and Kansas with responsibilities for all regulatory matters and oversight of financial planning and analysis for Black Hills' utilities in Arkansas and Kansas. In 2021, I was promoted to Vice President, Regulatory with oversight of the revenue requirement and regulatory reporting functions and responsibility for regulatory strategy, policy, and financial planning and analysis across Arkansas, Iowa, Kansas, Nebraska, South Dakota, and Wyoming. In 2023, I was promoted to my current position as Vice President, Treasurer. I earned a Bachelor of Science degree in Business Administration with a concentration in economics and finance from Southwest Baptist University in 2002 and a Master of Business Administration degree from Southern Methodist University in 2006.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. I have previously testified before the Commission in Docket No. EL-24-032.

III. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I provide an overview of Black Hills' financial structure and financing philosophy. I also briefly discuss the benefits of the Merger as it pertains to the continuing financial health of Black Hills and the combined companies post-Merger. As Mr. Bird explains, under the Merger, Black Hills will become the indirect parent company of NorthWestern Energy Public Service Corporation ("NorthWestern"), NorthWestern Group's operating company that provides utility services in South Dakota and Nebraska. As part of this overview, I explain how the Black Hills financing model supports financial integrity and timely and cost-effective access to capital and describe how this model applies in a multi-jurisdictional environment. Finally, I explain how the Merger will not harm South Dakota customers and how it is expected to benefit customers, from a financial perspective. Northwestern Group's Chief Financial Officer, Crystal Lail, addresses similar issues in her Direct Testimony, from the perspective of Northwestern.

IV. OVERVIEW OF BLACK HILLS FINANCIAL STRUCTURE AND PHILOSOPHY

Q. CAN YOU DESCRIBE THE FINANCIAL STRUCTURE AND PHILOSOPHY OF BLACK HILLS?

A. Black Hills is the parent holding company of multiple gas and electric utilities, including Black Hills Power, a public utility providing electric service in South Dakota. Black Hills also owns and operates complementary non-regulated subsidiaries. Black Hills' financing philosophy focuses on maintaining financial integrity and ensuring timely and cost-effective access to capital, in support of the operational needs of its subsidiaries. As a parent company, Black Hills does not have any operating assets and does not generate any cash flow to support credit metric assessments on its own. The creditworthiness of Black Hills is based on the financial integrity, regulatory environment, and operational performance of all its subsidiaries.

Black Hills' financing philosophy remains consistent during periods of increased market uncertainty and volatility, including those triggered by unforeseen economic disruptions such as pandemics, significant weather events, geopolitical tensions, and inflationary or recessionary pressures. Financial integrity is critical to each utility's ability to carry out its obligations as a public utility and provide safe, reliable, and cost-effective service to customers. Black Hills remains committed to maintaining solid investment-grade credit ratings, a strong balance sheet, and overall financial integrity.

Q. IS THE MERGER CONSISTENT WITH AND SUPPORTIVE OF BLACK HILLS' FINANCING PHILOSOPHY?

A. Yes. As discussed in the testimony of Ms. Lail and addressed later in my testimony, the Merger is a credit-supportive transaction providing enhanced size, scale, and operating diversity, which in turn will foster financial integrity for the combined company.

Q. PLEASE DESCRIBE HOW THE UTILITY OPERATING COMPANIES OF BLACK HILLS ARE FINANCED.

A. Black Hills obtains financing for its subsidiaries at the holding company level to provide customers with the benefits of economic scale when raising capital for the operations of its utility subsidiaries. With respect to long-term financing, each subsidiary's capital structure is reviewed quarterly and adjustments are made as needed to maintain a strong subsidiary balance sheet, *via*: (1) assignment of long-term debt from Black Hills through intercompany notes; (2) wholly or partially retaining its own earnings; and, (3) receiving equity infusions from Black Hills. Additionally, each subsidiary participates in either a utility money pool agreement ("UMP") or a Non-Utility Money Pool agreement ("NUMP") for its short-term cash and working capital requirements. Access to short-term debt is important to funding the daily cash needs of utility operations, and Black Hills is able to cost-effectively access Commercial Paper ("CP") markets at scale or borrow against its revolving credit facility ("Credit Facility") and lend to the respective UMP or NUMP as needed, at cost. This structure provides financial flexibility and the benefits of economic scale in obtaining financing on behalf of Black Hills' utility subsidiaries.

Q. PLEASE EXPLAIN HOW ISSUING LONG-TERM DEBT AT THE HOLDING COMPANY ON BEHALF OF BLACK HILLS' SUBSIDIARIES PRODUCES ECONOMIES OF SCALE, WHICH BENEFITS CUSTOMERS.

A. Due to the size of many of the Black Hills regulated utilities, it is more cost effective and efficient to issue larger tranches of index-eligible debt at the parent level and make assignments of this debt to the various subsidiaries through inter-company notes. Index-eligible debt is more liquid and provides investors with the ability to trade the instrument more efficiently in the market, if necessary. This liquidity is viewed positively by bond investors since the larger and more liquid the bond instrument is, the more opportunities investors have to trade the instrument.

For example, the Bloomberg U.S. Corporate Investment Grade Bond Index (formerly, Barclays Investment Grade Index), which is a key benchmark index for investment grade debt, requires a minimum tranche size for index inclusion of $300 million. Many investors use this index to benchmark their debt and will not invest in non-index eligible bonds. Fewer investors translates to less liquidity and higher bond costs for issuers. Because the majority of the Black Hills subsidiaries do not have recurring financing needs that reach the $300 million debt minimum, Black Hills aggregates its financing needs for its subsidiaries, issues index-eligible debt tranches at the parent level and makes intercompany debt assignments to its subsidiaries to provide the benefits of economic scale to customers.

Q. PLEASE EXPLAIN THE METHODOLOGY FOR DETERMINING THE COST OF LONG-TERM DEBT THAT BLACK HILLS ASSIGNS TO ITS UTILITY SUBSIDIARIES.

A. The cost of long-term debt for the Black Hills subsidiaries is determined based on the weighted average cost of all long-term debt issued and outstanding by Black Hills.[2] Under this methodology, each subsidiary receives assigned debt at the same interest rate based on the parent company's weighted-average cost of debt. This allows customers to benefit from the economies of scale in issuing index-eligible bonds.

[2] In determining the weighted average cost of long-term debt, indentures previously issued and specific to Black Hills Power and Cheyenne Light, Fuel and Power Company ("Cheyenne Light") are excluded from the calculation. Indentures specific to Cheyenne Light are directly assigned to Cheyenne Light and indentures specific to Black Hills Power are direct assigned to Black Hills Power.

Q. PLEASE EXPLAIN HOW THE BLACK HILLS SHORT-TERM FINANCING THROUGH CP MARKETS AND ITS REVOLVING CREDIT FACILITY PRODUCES ECONOMIES OF SCALE AND FINANCIAL FLEXIBILITY, WHICH BENEFIT CUSTOMERS.

A. Strong liquidity and financial flexibility are key to maintaining financial integrity and solid investment grade credit ratings. Black Hills has a $750 million Credit Facility, which provides a flexible and readily accessible source of short-term funding. This Credit Facility has an accordion feature that allows Black Hills to increase the size to $1 billion with the consent of the lending banks. Black Hills' Credit Facility provides financial flexibility and also serves as a key backstop to Black Hills' CP program, whereby Black Hills is able to cost-effectively secure short-term funds on behalf of its subsidiaries in the CP Market as an A2/P2 rated corporate CP issuer. Short-term funds raised in the CP Market by Black Hills are then made available, at cost, to subsidiary participants in the separate UMP or NUMP money pool agreements – with participation determined by the nature of the subsidiary.[3] This arrangement allows the Black Hills utility subsidiaries to benefit from its cost-effective and flexible access to short-term funding.

Q. HOW DOES BLACK HILLS PARTICIPATE IN THE UTILITY MONEY POOL?

A. Under the terms of the UMP, Black Hills can be a lender but it cannot act as a borrower. This arrangement provides Black Hills' utility subsidiaries with the benefits of economies of scale and financial flexibility and ensures that the UMP remains a reliable and secure resource for the utility subsidiaries.

[3] Regulated utilities participate in the UMP. By way of comparison, non-regulated entities participate in the NUMP. The UMP is on file with the Federal Energy Regulatory Commission ("FERC") and all updates or changes to the UMP must likewise be filed with FERC.

Q. HOW DO INVESTORS EVALUATE A COMPANY'S FINANCIAL INTEGRITY?

A. At a high level, investors look to nationally recognized credit rating services to evaluate a company's financial integrity and risk profile, and to provide them with an independent assessment of the company's current financial position. Black Hills maintains credit ratings with two nationally-recognized credit rating services: Moody's Investors Service ("Moody's") and S&P Global Ratings ("S&P"). Black Hills focuses on maintaining solid investment grade credit ratings. The senior unsecured rating of Black Hills is Baa2 by Moody's and BBB+ by S&P, both with stable outlooks. The most recent published credit rating reports from S&P and Moody's for Black Hills are provided as Confidential Exhibits TDS-1 and TDS-3, respectively.

Q. HOW DO RATING AGENCIES EVALUATE COMPANIES?

A. Each credit rating service maintains an analytical framework applicable to all rated companies. As discussed by Ms. Lail in her testimony, rating agencies rely on both qualitative and quantitative factors in determining a company's credit ratings. For the qualitative factors, rating agencies determine the level of business risk faced by the utility as influenced by the regulatory environment it operates in, its size, scale and diversity, as well as its operating efficiency measured in terms of safety, reliability, and compliance, among other things. As part of the quantitative assessment, the rating agencies review numerous financial metrics for a given entity, including the ratio of FFO ("Funds from Operations") to Debt.

Q. PLEASE EXPLAIN HOW CREDIT RATINGS OF BLACK HILLS IMPACT ITS UTILITY SUBSIDIARIES.

A. Black Hills utility subsidiaries do not directly access the credit markets, so their liquidity needs and sources of financing on a going-forward basis are provided through Black Hills. In general, a strong investment-grade credit rating at Black Hills, which is driven by the strong financial health of its subsidiaries, results in more favorable credit terms, greater access to capital, and a lower cost of debt overall. A solid investment grade credit rating affords Black Hills the financial strength to attract funding for investments in its utility operating companies to meet the needs of customers.

Q. HAVE THE RATING AGENCIES ASSESSED THE MERGER AS BEING CREDIT SUPPORTIVE FOR BLACK HILLS?

A. Yes. Following the announced Merger, S&P and Moody's both affirmed the current credit ratings and stable outlook for Black Hills. In its ratings affirmation, Moody's highlighted: "[t]he combination with NorthWestern will enhance Black Hills' size and scale, while allowing it to maintain a consistent financial profile...," and "the transaction is also credit supportive in that it is being executed as a combination of equals in an all-stock merger that maintains existing capital structures." Likewise, S&P commented in their ratings affirmation that "we expect the merger of these two entities to create a larger entity with improved economies of scale and improved regulatory and operating diversity, with a group credit profile (GCP) consistent with that of [Black Hills]."

V. THE MERGER WILL BETTER SUPPORT THE FINANCIAL INTEGRITY OF THE COMPANIES ON A COMBINED BASIS

Q. HOW DO YOU EXPECT THE MERGER WILL IMPACT THE COMBINED COMPANIES' ACCESS TO COST-EFFECTIVE CAPITAL FINANCING?

A. I expect the Merger will benefit the combined companies' cost-effective access to capital financing, as compared to Black Hills' access to capital financing today. Larger companies in the utility sector typically gain better access to capital at more attractive rates, terms, and conditions. Conversely, smaller utilities often face challenges in accessing capital on more favorable terms, especially during periods of volatility in energy or financial markets. Black Hills, like Northwestern Group, is quite small compared with other utility groups in the industry. Figure 2 in Ms. Lail's direct testimony depicts this graphically. Post-Merger, the combined company will be nearly double the size of either company individually.

Even though Black Hills maintains a solid investment grade credit rating with reasonable access to financial markets today, that does not change the fact that on a standalone basis, it would be more costly for Black Hills to meet its future financing needs, as compared to these costs as part of a larger, combined enterprise, including NorthWestern Group. All else equal, higher financing costs mean higher rates for customers, where lower financing costs translate to lower costs for customers.

Q. FROM A FINANCIAL PERSPECTIVE, WILL BLACK HILLS POWER CUSTOMERS BENEFIT FROM BEING PART OF A LARGER COMBINED ORGANIZATION?

A. Yes, even though Black Hills Power is not an applicant to this proceeding, for similar reasons that Ms. Lail describes the Merger benefitting NorthWestern and its customers, Black Hills Power and its customers will also benefit. Having a larger parent company with greater financial flexibility and access to cost-effective capital financing will help support Black Hills Power's ability to make capital investments necessary to continue to provide safe and reliable service for South Dakota customers.

Q. FROM A FINANCIAL PERSPECTIVE, IS THIS MERGER IN THE PUBLIC INTEREST?

A. Yes. As explained above, Black Hills is a financially stable and creditworthy company. The Merger stands to only enhance the creditworthiness of the combined company through increased scale and improved access to cost-effective capital. This, in turn, will result in no harm, and long-term financial benefits for South Dakota customers.

VI. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

VERIFICATION

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

/s/ Thomas D. Stevens
Thomas D. Stevens