

NORTHWESTERN AND BLACK HILLS
GE25-001

REQUEST DATE : 01/02/26

RESPONSE DATE : 01/12/26

SUPPLEMENTAL DATE: 01/26/26

REQUESTING PARTY: South Dakota Public Utilities Commission Staff

SUBJECT: Cost Allocation

Staff Request No. 2.5:

With reference to Staff Request No. 1.3(b), the Joint Applicants state: “At this time, no internal or consultant analyses have been prepared regarding potential changes to allocation methodologies.” Please:

- a. Explain how the Joint Applicants are proposing for the Commission to assess the risk of adverse impacts resulting from cost allocation methodology modifications that may occur in connection with the merger when the Joint Applicants themselves have not evaluated or analyzed how those methodologies may change.
- b. If the Company’s response to subpart (a) relies, in whole or in part, on the Commission’s continuing regulatory oversight (Staff notes the statement made in response to Staff Request No. 1.11 that, “Joint Applicants commit to filing changes to the cost allocation methodologies with the Commission through applicable regulatory processes after the merger closes.”), explain how reliance on regulatory oversight “after the merger closes” satisfies the Company’s obligation in the instant proceeding to demonstrate that the merger is unlikely to result in adverse impacts to South Dakota customers.
- c. If the Company’s response to subpart (a) relies, in whole or in part, on the Company’s assertion made in response to Staff Request No. 1.3(a) that, “Joint Applicants do not expect the existing Black Hills and NorthWestern cost allocation methodologies to initially be impacted by the merger...”, state the length after consummation of the proposed merger that the Company is committing to maintain existing cost allocation methodologies for Black Hills and NorthWestern.

Response to Staff Request No. 2.5:

Specific Objection: In addition to the Joint Applicants’ general objections and definitions, Joint Applicants object to all subparts on grounds they misstate or misconstrue the applicable legal

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standard for merger review and approval in South Dakota. Without waiving said objections, and specifically reserving same, please see the following.

Joint Response:

- a. Please see Joint Applicants' Joint Application for an explanation of applicable legal standards that govern this proceeding and how the Joint Applicants have satisfied their burden. Joint Applicants disagree that "assessing the risk of adverse impacts resulting from cost allocation methodology modifications" is the pertinent legal standard for their application. The Joint Applicants clarify and reiterate they are not proposing any cost allocation modifications for any South Dakota rate regulated entity as part of this proceeding. Please see Ms. Lail's Direct Testimony at page 24, lines 3-17 for an explanation of when and how changes to cost allocation methodology will occur. In pertinent part, she states: While we do not expect the existing NorthWestern Group and Black Hills' cost allocation methodologies to initially be impacted by the Merger, we expect to evaluate this process as part of the integration planning discussed by Ms. Nooney. NorthWestern commits to filing changes to the cost allocation methodologies with the Commission through the appropriate regulatory process, as applicable, after the Merger closes.
- b. Please see objections and the response to subpart a. No cost allocation changes are being requested or proposed as part of this Merger docket. Because no cost allocation changes are being requested as part of this Merger docket, South Dakota customers cannot be adversely impacted by cost allocation decisions as a direct result of this proceeding. The Commission will have the opportunity to review any changes that are identified during the implementation and integration process and to address those impacts in the appropriate future regulatory proceeding where the resulting impacts would occur and/or requested to be passed on to customers.

That said, the Joint Applicants understand Staff's interest in the potential impacts of future cost allocation changes on South Dakota customers and the extent to which future cost allocations could positively or negatively impact South Dakota customers. Both Black Hills and NorthWestern have experience in developing and implementing cost allocation methodologies across a diverse range of operating companies, with a guiding principle that costs be reasonable and equitably allocated across operating companies. While the Joint Applicants have not yet developed a new cost allocation methodology for the merged entity, they are in the process of evaluating both companies' current practices and principles to identify an approach that will ensure costs remain reasonably and fairly allocated across operating companies. Generally speaking, both Joint Applicants' share a similar current practice of direct charging each operating company to the extent practicable based on the primary cost driver or a relevant proxy if needed. Both entities also similarly rely on the following primary cost drivers to determine

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allocations: Gross Margin, Asset Costs, and Payroll Costs as reflected in Joint Applicants' respective cost allocation manuals.

A primary difference between Black Hills and NorthWestern's cost allocation process, however, is that Black Hills uses a service company model; thus, shared costs are allocated from the service company ("BHSC") to the applicable regulated and non-regulated affiliates. By way of comparison, NorthWestern does not use a service company model; thus charges are allocated from NorthWestern Corporation (where employees are employed) to affiliates.

- c. Please see objections and the response to subpart a.. As noted in the response to Staff 2.2, the implementation planning process is in the early stages and functional teams will begin work this month. As such, at this point, Joint Applicants cannot propose a specific length of time, after consummation of the proposed merger, during which existing cost allocation methodologies for Black Hills and NorthWestern will remain unchanged. However, as noted in subpart b, the Commission will have the ability to address any proposed customer impacts in the appropriate future regulatory proceeding where the actual resulting impacts will occur.

Respondent(s):

Crystal Lail (NorthWestern) and Kimberly Nooney (Black Hills)

Attachments:

None

Supplemental Response to Staff Request No. 2.5:

Specific Objection: In addition to the Joint Applicants' general objections and definitions, Joint Applicants object to all subparts on grounds they misstate or misconstrue the applicable legal standard for merger review and approval in South Dakota. Without waiving said objections, and specifically reserving same, please see the following.

Joint Response:

- a. No supplement.
- b. See Attachment Staff 2.5a – Merged Company CAM Example. For illustrative purposes only, Attachment Staff 2.5a reflects the allocation percentages anticipated if the Black Hills and NorthWestern CAMs were combined. It also shows the current allocation percentages for Black Hills and NorthWestern under their existing respective CAMs (Blended Ratio allocation factor for Black Hills and Three Factor Test for NorthWestern) for the year ended December 31, 2025. Notably, as shown in each entity's previously provided CAM, there is more than

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one possible allocator for costs the Blended Ratio / Three Factor test is an example.

The example further reflects how those allocation percentages will impact \$1,000,000 of costs incurred by the Merged Company that are not directly assigned to an affiliate under that same allocation method. As seen in Attachment Staff 2.5a, when costs are spread across a larger number of entities and customers, the allocation of those costs is less for each of the entities and customers.

Joint Applicants anticipate that savings will result from this merger. See Highly Confidential Staff 2.8 attachments. See also the Staff 2.9 Supplemental Response and the Highly Confidential Attachment Staff 2.9e – Value Creation Analysis. These anticipated savings coupled with the reduced allocation percentages of the combined company will, in time, result in benefits to customers through overall reduction in indirect costs paid by South Dakota customers of the combined company.

Changes in allocations that result from any combined CAM will not flow through to customers immediately upon any change. As with most expenses, these costs would be included in the revenue requirement and presented to the commission as part of the overall cost to serve during the next base rate proceeding. The cost allocation methodology is one of a historical perspective as it relates to commission decisions. Costs are allocated in accordance with the defined CAM and are reviewed in a rate review. There is no difference with respect to establishment of a CAM for a merged entity nor is there any difference today if Black Hills Power or NorthWestern changed their cost allocation as separate companies. The commission would not have a prospective view and would instead review and determine, post implementation, if the changes are both reasonable and equitable.

See Attachment Staff 2.5b for the excel file of the Merged Company CAM Example provided in Attachment Staff 2.5a.

c. No supplement.

Supplemental Attachments:

- Attachment Staff 2.5a – Merged Company CAM Example.pdf
- Attachment Staff 2.5b – Merged Company CAM Example.xlsx

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REQUESTING PARTY: South Dakota Public Utilities Commission Staff

SUBJECT: Operational Efficiencies

Staff Request No. 2.9:

Reference the following exchange from the August 19, 2025 merger conference call with investors:¹ Nicholas Campanella: “Then just one more, if I could. Are there any cost savings embedded in that number when you are talking about it on the combined 5% to 7% EPS outlook?” Witness Lail: “Yes. I would tell you there is [sic] some and they are very light is what I would say. But there is some assumed efficiencies within that number.”

- a. Identify and provide all documents, analyses, workpapers, and models (including in native format) that support, quantify, or otherwise substantiate the statement that there are “some assumed efficiencies” embedded in the combined 5% to 7% EPS outlook.
- b. For each item produced in subpart (a), identify (i) the specific efficiency assumption(s) reflected (for example, headcount, procurement, shared services, systems, financing, or other categories), (ii) the assumed timing of each efficiency, and (iii) whether any portion is attributable to South Dakota-jurisdictional utilities (either directly or through allocations).
- c. If the Joint Applicants contend that no responsive documents exist for subparts (a) and (b), explicitly state: “No responsive documents exist.” Then state whether the “assumed efficiencies” referenced on the investor call were reflected without written support.
- d. State (yes/no) whether the Joint Applicants have updated the “assumed efficiencies” related to this merger.
- e. If the answer to subpart (d) is affirmative, provide copies of the analysis underlying the Company’s updated view of “assumed efficiencies.”

¹ The transcript was obtained from the following URL: <https://www.northwesternenergy.com/docs/default-source/default-document-library/about-us/investors/financials/black-hills-corp---northwestern-energy-merger-conference-call-transcript.pdf>

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Response to Staff Request No. 2.9:

Specific Objection: In addition to Joint Applicants' general objections and definitions, Joint Applicants object to this data request to the extent it seeks to solicit documents, analyses, workpapers, and/or models that were not developed by Joint Applicants, and that are outside Joint Applicants control or custody.

Without waiving or limiting their objections, Joint Applicants respond as follows:

Joint Response:

- d. No.
- e. Not applicable.

NorthWestern:

- a. Please see the Highly Confidential Attachment Staff 2.8a, pages 21 and 39, Highly Confidential Attachment Staff 2.8b, page 9, Highly Confidential Attachment Staff 2.8e, page 8, Highly Confidential Attachment Staff 2.8f, page 49, Highly Confidential Attachment Staff 2.8g, page 9, Highly Confidential Attachment Staff 2.8m, page 6, Highly Confidential Attachment Staff 2.8n, page 2, Highly Confidential Attachment Staff 2.8o, page 9, Highly Confidential Attachment Staff 2.8p, page 6, Highly Confidential Attachment Staff 2.8s, page 5, Highly Confidential Attachment Staff 2.8t, page 47 and 64, and Highly Confidential Attachment Staff 2.8v, page 9. Please note any references to efficiencies or potential accretion are only estimates.
- b. The efficiencies or accretion estimates noted are in the aggregate and were not based on specific areas of assumed efficiencies as noted. Moreover, the estimates are on an enterprise basis and are not utility specific and are not tied to a specific achievement date or time.
- c. Not applicable.

Black Hills:

- a. Please the Highly Confidential Attachments to Staff 2.8 and particularly the presentations made on June 9, 2025 at slide numbers 38-39 and August 14, 2025, at slide number 6. Please note: any references to efficiencies or potential accretion are only estimates.
- b. The efficiencies or accretion estimates noted are in the aggregate and were not based on specific areas of assumed efficiencies as noted. Moreover, the estimates

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are on an enterprise basis and are not utility specific and are not tied to a specific achievement date or time.

- c. Not applicable.

Respondent(s):

Crystal Lail (NorthWestern) and Kimberly Nooney (Black Hills)

Attachments:

None

Supplemental Response to Staff Request No. 2.9:

Joint Response:

- d.-e. As explained in Staff 2.4, the Joint Applicants engaged PwC to support integration planning activities as described in the scope of work provided in response to Staff 2.4. PwC's scope of work included conducting a targeted assessment of potential value-creation opportunities associated with the proposed merger. The work completed by PwC thus far focused on the topics of non-fuel operations and maintenance expense and labor costs, including preliminary identification and quantification of potential cost savings before considering costs to achieve. The analysis is in the aggregate for the combined enterprise and is not utility specific and does not include other potential areas for savings such as efficiencies in capital markets financing.

This analysis provides two benchmarks, one estimate based on savings achieved in prior mergers and acquisitions ("Deal Benchmarking"), and a second benchmark based on publicly available external cost data (FERC Form 1, FERC Form 2, and LDC filing data) ("Cost Data Benchmarking"). Highly Confidential Attachment Staff 2.9e summarizes potential opportunities for merger related savings in the two areas mentioned above, the methodologies used to estimate them, common categories of costs to achieve, and the process followed to develop these estimates.

This analysis supports the testimony of the Joint Applicants that the transaction enables the realization of substantial benefits in the form of economies of scale and operating efficiencies. These savings are directly attributable to the merger and would not be realized in its absence. From a customer perspective, the cost savings, even net of costs to achieve, are expected to support reduced costs than otherwise possible on a standalone basis for either company and long-term rate stability, as detailed in the testimony of Brian Bird at pages 12 and 22.

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This analysis, conducted while we are planning for implementation, supports the assessment completed prior to announcement regarding the potential value of combining the two companies. *See e.g.* Responses to Data Request Staff 2.9 subparts a. and b. for NorthWestern and Black Hills referenced above. By necessity, the analysis that was conducted prior to announcement of the transaction was high-level. As is typical in these transactions, knowledge of the proposed transaction within NorthWestern and Black Hills prior to public announcement was highly sensitive and not widely held. Given the extreme sensitivity surrounding the transaction, the availability of information from both companies was naturally limited and the timeframe for completing the analysis was short. The preannouncement analysis by both applicants was primarily high level and focused on assessing reasonableness. Moreover, due to the nature of the transaction as an all-stock transaction, cost savings were not a primary driver.

This benchmarking analysis is consistent with the expected range developed pre-announcement to support the overall financial projections for the combined entity, as provided by NorthWestern and Black Hills in the response to Data Request Staff 2.9 subparts a. and b.

For the cost categories analyzed with the PwC benchmarking information, the value creation analysis provides an initial estimate of cost savings ranging from \$48 million to \$70 million based on Deal Benchmarking. For prior deals structured as mergers, the range is \$48 million to \$59 million. By way of comparison, the Cost Data Benchmarking yields an initial estimate of \$18 million to \$60 million. All ranges are presented before considering costs to achieve. All ranges can and will be impacted by what decisions are made and the timing of implementing those decisions, which will be made during integration planning and, executed post-transaction close, during integration implementation.

In conducting its analysis PwC developed a cost baseline for NorthWestern Energy Group and Black Hills using historical financial data related to operating, administrative, and general costs of the two companies and compared them against the noted benchmarks. Consideration was made for costs which are not within the control of the companies, for example pension, customer debt, and taxes etc. The primary categories of cost savings identified in the analysis are described below:

- Corporate and Administrative Support Staffing and Programs – Reductions in nonlabor programs and expenses, such as public company costs, insurance, and credit facilities, resulting from economies of scale and cost avoidance. Reductions in support staffing is a cost-savings category and while specific headcounts or positions have not been identified, Joint Applicants do know that certain positions will not need to be duplicated (e.g. CEO and Board roles) post-merger.
- Information Technology – Consolidation of applications and transition to a single operating platform, reducing support and maintenance costs.

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- Supply Chain – Improved strategic sourcing through specification standardization, vendor consolidation, rationalization of requirements, and aggregation of purchasing.

Consistent with antitrust requirements, the Joint Applicants are limited in the work that can be completed prior to closing. These rules require that we continue to conduct business independently without making joint decisions and; consequently we are not able to do things like jointly negotiate with vendors. Thus, much of the work to more discreetly validate, itemize and implement these estimates will necessarily need to be conducted post-closing. For additional information on antitrust parameters, please see Attachment Staff 2.2e, slides 18 and 19.

The Joint Applicants expect to achieve cost reductions over the first three to five years following the close of the merger. Due to the need for extensive information technology systems integration, some reductions are not expected to be fully realized until the third or fourth year following close. As system conversions and process alignment will continue over several years, the Joint Applicants expect to utilize natural attrition to minimize direct employee impacts. As retirements occur, positions may be combined or left unfilled.

Supplemental Attachments:

- Highly Confidential Attachment Staff 2.9e – Value Creation Analysis

CERTIFICATE OF SERVICE

I certify that on this 26th day of January, 2026, the foregoing document served by electronic mail on the following:

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Catherine Sabers