

NORTHWESTERN AND BLACK HILLS  
GE25-001

REQUEST DATE : 01/02/26

RESPONSE DATE : 01/12/26

SUPPLEMENTAL DATE: 01/26/26

SECOND SUPPLEMENTAL DATE: 03/18/26

REQUESTING PARTY: South Dakota Public Utilities Commission Staff

SUBJECT: Operational Efficiencies

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**Staff Request No. 2.9:**

Reference the following exchange from the August 19, 2025 merger conference call with investors:<sup>1</sup> 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.

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<sup>1</sup> 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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- e. If the answer to subpart (d) is affirmative, provide copies of the analysis underlying the Company's updated view of "assumed efficiencies."

**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.

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- 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.

**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

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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.

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

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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.
- 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

**Second Supplemental Response to Staff Request No. 2.9:**

*Joint Response:*

As noted above, on January 26, 2026, Joint Applicants provided, in response to this data request, a highly confidential document regarding value creation and that reflected potential gross value creation opportunities over time. Through this Second Supplemental Response to Staff Request 2.9, Joint Applicants are providing further confidential analysis of value creation opportunities (“Highly Conf Second Supp Attachment Staff 2.9f – Value Creation 2”).

In Highly Conf Second Supp Attachment Staff 2.9f – Value Creation 2, Black Hills’ and NorthWestern’s actual historical cost information was combined with the previously provided Value Creation Analysis completed by Price Waterhouse Coopers (“PwC”) and provided in Highly Confidential Attachment Staff 2.9e to provide further NewCo specific value creation opportunities within non-labor and labor spend categories at the enterprise level.

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The analysis presented in Highly Conf Second Supp Attachment Staff 2.9f identifies an estimated potential value creation gross savings opportunity from non-labor and labor expense within the \$48 - \$70 million range that had been identified within previously provided Highly Confidential Attachment Staff 2.9e.

For non-labor value creation opportunities using Black Hills' and NorthWestern's actual information, the Highly Conf Second Supp Attachment Staff 2.9f analysis identified 11 categories that could enable value creation through economies of scale, elimination of duplicative expenses, and implementation of operating efficiencies common to mergers. For these non-labor categories, PwC estimated the value creation opportunities range to be approximately \$25 to \$31 million which is expected to be realized over a time-period not yet determined.

For potential labor value creation opportunities, using PwC's proprietary analysis combined with several assumptions regarding payroll and benefits, attrition rates, open requisitions, and labor capitalization rates as examples, PwC estimated the opportunity to be approximately \$36 million with most of the savings identified within corporate services and driven by the identification of potentially overlapping roles. The realization of this opportunity will likely be impacted by the operating model design, integration decisions on items such as harmonization of compensation and benefits and the organizational structure which may impact span of control. It is expected this opportunity will likely be realized over time through attrition and vacancy elimination.

The estimates identified within Highly Conf Second Supp Attachment Staff 2.9f do not take into consideration costs-to-achieve nor the timing required to execute and realize these opportunities. Notably, the value creation ultimately realized will be impacted by decisions which will be made during the integration planning and later the integration implementation process, third-party negotiations, and market conditions at the time of integration implementation.

**Second Supplemental Attachments:**

- Highly Conf Second Supp Attachment Staff 2.9f – Value Creation 2

**CERTIFICATE OF SERVICE**

I certify that on this 18th day of March, 2026, the foregoing document served by electronic mail on the following:

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