

Direct Testimony
Crystal D. Lail

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 Crystal D. Lail
on Behalf of NorthWestern Energy Public Service Corporation
and NorthWestern Energy Group, Inc.
in Support of the Joint Application**

October 27, 2025

TABLE OF CONTENTS

I. WITNESS INFORMATION1

II. OVERVIEW OF THE MERGER2

III. EFFECTS OF THE MERGER ON NORTHWESTERN’S FINANCIAL POSITION4

IV. ALTERNATIVE FINANCING APPROACH POST-MERGER18

V. COST ALLOCATION22

VI. TREATMENT OF MERGER COSTS24

VII. CONCLUSION26

EXHIBITS

Confidential Exhibit CDL-1	S&P Research Update on NorthWestern Energy Group dated August 19, 2025
Confidential Exhibit CDL-2	Moody’s Rating Action on NorthWestern Energy Public Service dated August 19, 2025
Confidential Exhibit CDL-3	Fitch Rating Action Commentary dated August 26, 2025
Confidential Exhibit CDL-4	Moody’s Credit Opinion dated August 26, 2025
Confidential Exhibit CDL-5	Fitch Report dated September 15, 2025

I. WITNESS INFORMATION

1 **Q. PLEASE IDENTIFY YOURSELF, YOUR JOB TITLE, AND ON WHOSE**
2 **BEHALF YOU ARE TESTIFYING.**

3 A. My name is Crystal D. Lail and I am the Chief Financial Officer (“CFO”) of
4 NorthWestern Energy Group, Inc. (“NorthWestern Group”), NorthWestern Energy
5 Public Service Corporation (“NorthWestern”, the South Dakota and Nebraska utilities)
6 and NorthWestern Corporation (the Montana utility.) I am testifying on behalf of
7 NorthWestern and NorthWestern Group in support of the application requesting
8 approval of the Merger.¹

9 **Q. WHAT WILL YOUR ROLE BE WITHIN THE COMBINED**
10 **ORGANIZATION?**

11 A. I will be CFO of the combined organization. In that capacity, I will be responsible for
12 overseeing all financial functions of the combined company, including capital
13 planning, accounting and reporting, financing strategy, treasury management, investor
14 relations, and enterprise risk management. My role will also include ensuring that
15 financial decisions are made with a focus on delivering long-term value to customers
16 and shareholders while maintaining transparency and accountability to regulators.

17 **Q. PLEASE PROVIDE A DESCRIPTION OF YOUR RELEVANT**
18 **EMPLOYMENT EXPERIENCE AND OTHER PROFESSIONAL**
19 **QUALIFICATIONS.**

20 A. I have been with NorthWestern since January 2003 and have served as CFO since
21 February 2021. My responsibilities include the company’s financial strategy, capital

¹ See the definition of Merger in the Application.

1 markets activities, and oversight of the finance organization, including accounting and
2 reporting, financial planning and analysis, investor relations, enterprise risk
3 management, tax, and treasury. Since becoming CFO, I have overseen complex
4 financing transactions, participated in regulatory proceedings across all three of our
5 state jurisdictions, and helped the company maintain its investment-grade credit ratings
6 through periods of market volatility.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

8 A. The purpose of my testimony is to discuss the merits of the Merger as it pertains to the
9 financial health of NorthWestern Group and the future merged company. Specifically,
10 my testimony:

- 11 • Describes the structure and financial terms of the Merger;
- 12 • Explains how the Merger will not adversely impact customers;
- 13 • Presents considerations for an alternative financing approach post-merger;
- 14 • Discusses plans to address cost allocation methodologies for the merged
15 company; and,
- 16 • Details the treatment of transaction and integration costs.

II. OVERVIEW OF THE MERGER

17 **Q. PLEASE DESCRIBE THE MECHANICS AND KEY FINANCIAL TERMS OF**
18 **THE MERGER.**

19 A. Pursuant to the Agreement and Plan of Merger signed by NorthWestern Group, Black
20 Hills Corporation (“Black Hills”), and River Merger Sub Inc. on August 18, 2025
21 (“Merger Agreement”), which is attached as Exhibit BBB-1 to the Direct Testimony of
22 Brian B. Bird. NorthWestern Group and Black Hills will combine through an all-stock
23 “merger of equals” transaction. The Merger is structured as a tax-free stock-for-stock

1 exchange, with no transaction debt used to finance the Merger and no exchange of cash
2 (or other consideration) paid to or received by either company. Upon completion of
3 the Merger, NorthWestern Group will continue to be the parent of NWPS and
4 NorthWestern. From a corporate structure perspective, NorthWestern Group will
5 become a subsidiary of Black Hills, which will have a new name after the Merger closes
6 and which I will refer to as “ParentCo” in the rest of my testimony. NorthWestern will
7 remain a distinct subsidiary of NorthWestern Group, and all current subsidiaries of
8 Black Hills will remain distinct subsidiaries of ParentCo under the post-merger
9 structure. Please refer to Exhibit MMJ-2 to the Direct Testimony of Marne M. Jones
10 for a diagram of the new ownership structure.

11 **Q. WHY DO YOU BELIEVE THIS MERGER IS IN THE PUBLIC INTEREST**
12 **FROM A FINANCIAL PERSPECTIVE?**

13 A. I believe this Merger is essential to strengthening NorthWestern’s financial foundation
14 for the challenges of today and the future. The combination of Black Hills and
15 NorthWestern Group, two relatively small-sized utility holding companies, in adjacent
16 service territories, with very similar cultures and strong track records of working
17 together, will create value for all stakeholders and enable the utilities to do more
18 combined than either could do standalone. As I discuss in more detail throughout my
19 testimony, the Merger will improve the combined financial condition of ParentCo and
20 its subsidiaries as compared to continuing to operate on a stand-alone basis due largely
21 to an improvement in the business risk profile. The Merger will provide benefits of
22 scale including improvement in the efficiency of capital markets financing and greater

1 operational efficiencies. It will better position the combined entity to weather future
2 industry challenges as well as market volatility.

3 **Q. WILL THE MERGER AFFECT ONGOING LEGAL OR REGULATORY**
4 **PROCEEDINGS FOR NORTHWESTERN?**

5 A. No. All proceedings in front of the South Dakota Public Utility Commission
6 (“Commission”) will continue without interruption, as will any related legal
7 proceedings.

III. **EFFECTS OF THE MERGER ON NORTHWESTERN’S FINANCIAL**
POSITION

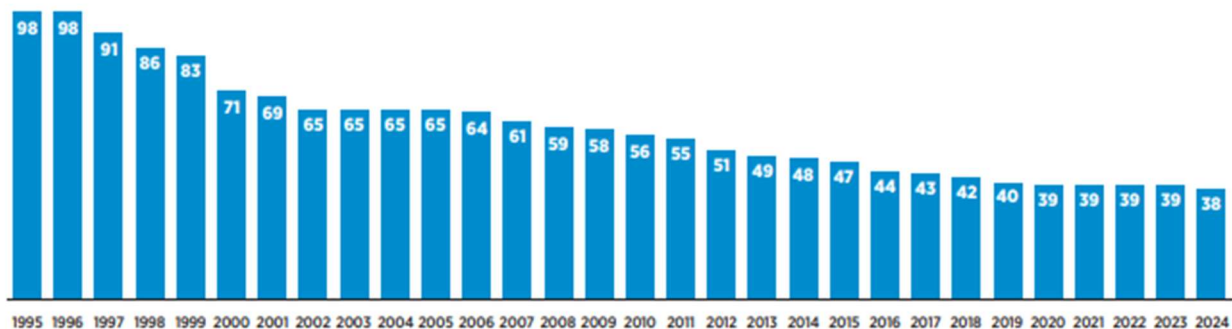
8 **Q. HAS THERE BEEN A TREND OF CONSOLIDATION IN THE UTILITY**
9 **INDUSTRY?**

10 A. Yes, as an example, as shown in Figure 1 below, EEI reports that the number of
11 investor-owned electric utilities has declined by 61% since 1995 from 98 to only 38
12 investor-owned electric utility companies today. Consolidation in the utility industry
13 has been driven by several factors including the need for scale, financial strength and
14 stability, operational efficiencies, diversification of geographic and business exposure,
15 additional resources to handle rising capital demands, and requirements for energy
16 transition.

Figure 1: EEI Index for IOUs

NUMBER OF ELECTRIC UTILITIES (EEI INDEX) 1995–2024

U.S. Investor-Owned Electric Utilities



Note: Based on Completed Mergers in the EEI Index of Electric Utilities

Source: S&P Global Market Intelligence and EEI Financial Analysis Department

1

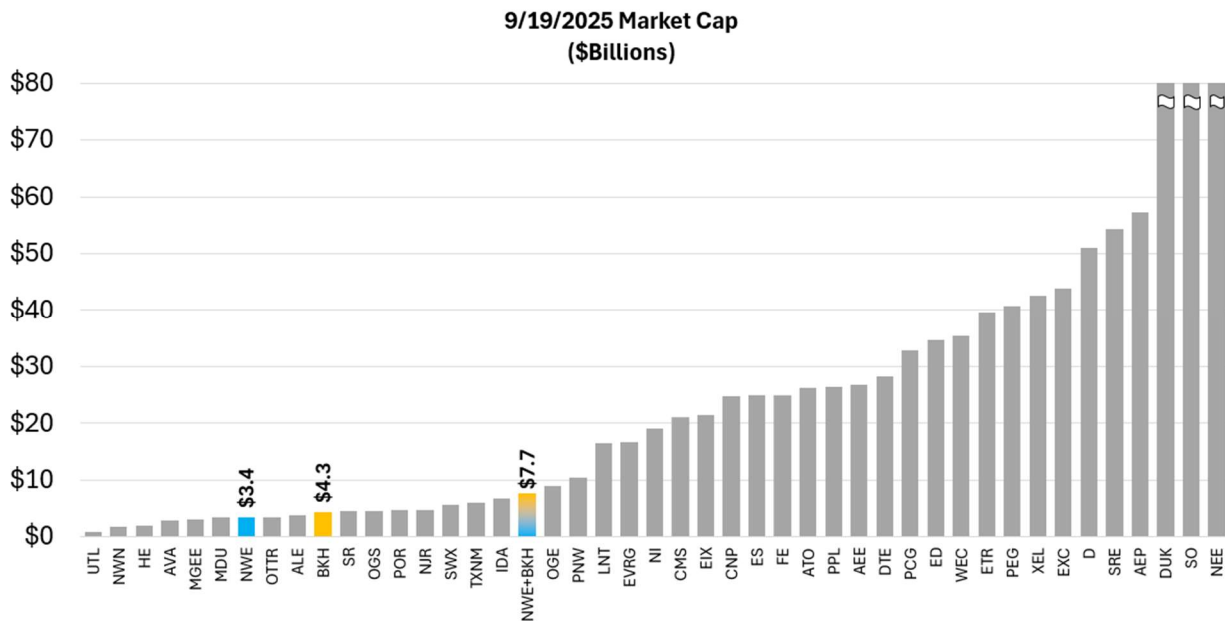
2 **Q. PLEASE DESCRIBE THE OVERALL FINANCIAL STATUSES OF**
3 **NORTHWESTERN GROUP AND BLACK HILLS.**

4 A. Both NorthWestern Group and Black Hills are investment-grade utility holding
5 companies with solid capital structures and disciplined financial practices. However,
6 as relatively small utility holding companies, both companies face challenges in
7 accessing capital on more favorable terms, especially during periods of volatility in
8 energy or financial markets.

9 As shown below in Figure 2, of the 44 U.S. electric and natural gas utilities with
10 publicly-traded equity today, Black Hills ranks 35th and NorthWestern Group ranks
11 38th on a standalone bases in terms of market capitalization. The Merger directly
12 addresses the challenges of smaller utilities by enhancing scale and financial strength.
13 On a combined basis, ParentCo will possess greater scale and scope, a stronger balance
14 sheet, and opportunities to pursue growth, all of which contribute to financing
15 efficiency and financial health.

16

Figure 2: Market Cap



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2 **Q. HOW DOES BLACK HILLS’ BUSINESS PROFILE AND FINANCIAL**
 3 **POSITION COMPARE TO NORTHWESTERN GROUP’S?**

4 A. As shown in the table below, Black Hills’ business profile and financial position are
 5 very comparable to NorthWestern Group’s.

Figure 3: Comparison of Black Hills to NorthWestern Group

		BKH	NWE	BKH + NWE
Financial	Market Cap (\$bn)	\$4.2	\$3.5	\$7.7
	Revenues (\$bn)	\$2.1	\$1.5	\$3.6
	EBITDA (\$mm)	\$773	\$551	\$1,324
	Net Income (\$mm)	\$273	\$225	\$498
	Rate Base (\$bn)	\$6.0	\$5.4	\$11.4
Operational	Total Customers (000's)	1,353	787	2,140
	Total Employees (000's)	2.8	1.6	4.4
	Electric / Gas (% of RB)	43% / 57%	82% / 18%	61%/39%
	% Regulated	99%	100%	99%
	Electric T&D (miles)	9K	29K	38K
	Gas T&D (miles)	49K	10K	59K
	Owned Generation (GW) ⁽¹⁾	1.4	1.5	2.9
	Jurisdictions	SD, WY, CO, AR, KS, IA, NE, MT	MT, SD, NE	SD, WY, CO, AR, KS, IA, NE, MT
Credit	S&P / Moody's Rating	BBB+ / Baa2	BBB / Baa2	

Sources: Company materials, as of 12/31/2024; Moody's and S&P credit reports and websites.

(1) Net owned nameplate capacity, does not include PPAs.

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Q. HOW DO YOU ANTICIPATE THE BUSINESS PROFILE OF THE COMBINED COMPANY WILL COMPARE TO THE BUSINESS PROFILES OF NORTHWESTERN GROUP AND BLACK HILLS ON A STANDALONE BASIS?

A. As shown in Figure 3 above, the combined company will be focused on investments in vertically-integrated electric and natural gas utilities with a substantially enhanced business profile that is double in size and has a more balanced mix of rate base and customers by service type and region. Black Hills' business profile is complementary to NorthWestern Group's, providing more stability and diversification of risk for the combined company.

1 **Q. FROM YOUR PERSPECTIVE, HOW WILL THE FINANCIAL POSITION OF**
2 **THE COMBINED COMPANY COMPARE TO THE FINANCIAL POSITIONS**
3 **OF NORTHWESTERN GROUP AND BLACK HILLS ON A STANDALONE**
4 **BASIS?**

5 A. The overall financial position of the combined company will be stronger than either
6 NorthWestern Group or Black Hills individually given the increase in size, scope, and
7 diversity. The significantly improved business profile discussed above will enhance
8 the financial strength of the combined company by providing diversity in cash flow
9 sources, regulatory oversight, and geographic footprint as well as a larger customer
10 base. ParentCo will have a larger balance sheet, higher market capitalization, and
11 greater financial flexibility – all of which should translate to better access to financial
12 markets than either Black Hills or NorthWestern Group can achieve on their own. As
13 I discuss later in my testimony, credit rating agencies and equity analysts have
14 expressed positive views on the Merger, citing size, scale and geographic
15 diversification as main factors improving the financial profile of both Black Hills and
16 NorthWestern Group.

17 **Q. FROM A FINANCIAL PERSPECTIVE, WHAT WILL IT MEAN FOR**
18 **NORTHWESTERN TO BECOME PART OF THE LARGER COMBINED**
19 **ORGANIZATION?**

20 A. Having a larger parent company with greater financial flexibility will help support
21 NorthWestern's ability to make critical investments necessary to continue to provide
22 safe and reliable service while maintaining affordability for South Dakota customers.
23 The management teams from both NorthWestern Group and Black Hills are committed

1 to information- and customer-driven investment decision-making and ensuring that
2 financial discipline remains a key priority for the combined organization. More
3 importantly, management teams from both NorthWestern Group and Black Hills have
4 a track record of high commitment to maintaining strong investment grade credit
5 ratings. The Merger will not alter NorthWestern’s current plan to invest in its system
6 to meet reliability and customer needs. The financial benefits provided by the larger
7 combined company should enhance the utility’s ability to cost-effectively deliver on
8 their investment plans. In summary, the Merger will not adversely impact
9 NorthWestern customers from a financial perspective and will in fact enhance the
10 business and financial risk profile of the utility with the support of a stronger parent
11 company.

12 **Q. WILL THE MERGER RESULT IN THE RECORDING OF GOODWILL?**

13 A. Even though NorthWestern Group and Black Hills are combining through a merger of
14 equals, Generally Accepted Accounting Principles (GAAP) for business combinations
15 require that one company be determined to be the “acquirer” and, by default, the other
16 company is deemed to be the “acquiree”, solely for accounting purposes. In accordance
17 with the rules of the required acquisition method of accounting, Black Hills has been
18 determined to be the accounting acquirer and NorthWestern Group will be the
19 accounting acquiree. Under this acquisition method, ParentCo will record the
20 investment in net assets of NorthWestern Group acquired at fair market value. In the
21 case of regulated assets and liabilities, fair value is generally considered to be book
22 value. At closing, the exchange value of Black Hills’ stock that is in excess of the book
23 value of NorthWestern Group’s net identifiable assets must be recorded as additional

1 goodwill on ParentCo’s books and will remain only on ParentCo’s books. Incremental
2 goodwill expected to be recorded directly related to the Merger is based upon stock
3 price at closing and is currently estimated at approximately \$700 million.

4 **Q. WILL THE MERGER HAVE ANY EFFECT ON THE ASSETS, LIABILITIES,**
5 **OR OUTSTANDING DEBT OF NORTHWESTERN?**

6 A. No.

7 **Q. WHAT ARE THE CURRENT CREDIT RATINGS OF NORTHWESTERN**
8 **GROUP AND BLACK HILLS?**

9 A. The current credit ratings of the companies are shown below:

	Senior Secured Rating		Senior Unsecured Rating		Outlook	
	BKH	NWE	BKH	NWE	BKH	NWE
S&P	A	A-	BBB+	BBB	Stable	Positive
Moody’s	NR	A3	Baa2	Baa2	Stable	Stable
Fitch	NR	A-	NR	BBB+	NR	Stable

10

11 The most recent published credit rating reports from each rating agency for
12 NorthWestern are provided as Confidential Exhibits CDL-1 through CDL-5.

13 **Q. WHAT FACTORS DO THE RATING AGENCIES CONSIDER WHEN THEY**
14 **ASSIGN CREDIT RATINGS TO A UTILITY?**

15 A. The rating agencies consider both quantitative and qualitative factors when assessing
16 the credit quality of a utility. For the quantitative factor, the agencies use various
17 financial metrics to measure a utility’s financial strength, with the key financial metric
18 being the ratio of FFO (Funds from Operation) to Debt. For the qualitative factor,
19 agencies determine the level of business risk faced by the utility as influenced by the
20 regulatory environment it operates in, its size, scale, and diversity, as well as its

1 operating efficiency measured in terms of safety, reliability, and compliance, among
2 other things. It is worth noting that quantitative factors have a 50% weighting in
3 Standard & Poor's ("S&P") rating methodology and a 40% weighting in Moody's
4 Investor Services ("Moody's") rating methodology, demonstrating that qualitative
5 factors are as important, if not more, than financial metrics. In other words, the rating
6 agencies recognize that for a utility company, business risk ultimately drives financial
7 performance.

8 **Q. HAVE THE CREDIT RATING AGENCIES ANALYZED THE PROPOSED**
9 **MERGER?**

10 A. All three rating agencies responded favorably to the merger announcement. S&P
11 affirmed the current credit ratings for NorthWestern Group, NorthWestern, and Black
12 Hills, and revised NorthWestern Group's outlook from Stable to Positive.² S&P
13 provided the following reasons for the change to a Positive outlook:

14 We expect the merger of these two entities to create a larger
15 entity with improved economies of scale as well as improved
16 regulatory and operating diversity, with a group credit profile
17 (GCP) consistent with BHC's '[BBB]+' GCP.

18 Moody's likewise affirmed the ratings of Black Hills and NorthWestern
19 (NorthWestern Group, as the holding company of NorthWestern, is not rated by
20 Moody's). Moody's commented in its press release following the merger
21 announcement:³

22 The transaction is strategically sound since it combines two
23 companies of roughly identical size, with contiguous service
24 territories and similar operating profiles. The NorthWestern

² S&P Global Ratings, "NorthWestern Energy Group Inc. 'BBB' Ratings Affirmed on Announced Merger With Black Hills Corp.; Outlook Positive," August 19, 2025, at 1.

³ Rating Action: Moody's Ratings affirms NorthWestern Corp and NorthWestern Energy Public Service's Baa2 ratings; stable outlook, at 1.

1 organization will benefit the most from the increased regulatory
2 and geographic diversification. The combined company will be
3 one of the more diverse companies in the sector, with 13
4 operating subsidiaries (including a pipeline) providing service in
5 9 regulatory jurisdictions, including the Federal Energy
6 Regulatory Commission.

7 Fitch Ratings (“Fitch”) also affirmed NorthWestern Group’s and NorthWestern’s
8 ratings and described the merger as credit positive (Black Hills is not rated by Fitch.).
9 Its report on NorthWestern Group stated the following:⁴

10 Fitch views the stock-for-stock transaction as a credit positive
11 for NorthWestern and its two operating subsidiaries,
12 NorthWestern Energy Public Service Corp. and NorthWestern
13 Corporation. With completion of the merger, Northwestern and
14 its two operating subsidiaries will become part of a significantly
15 larger holding company.

16 The combined company will have greater size and scale than
17 either NorthWestern or Black Hills on a standalone basis with
18 greater regulatory, business mix and geographic diversity.

19 All three rating agencies also agree that the combined company will be able to maintain
20 credit metrics such as FFO to debt of at least 14 percent (and at most 5.0x with Fitch’s
21 FFO leverage metric), allowing the rated entities to retain their strong investment grade
22 ratings.
23

⁴ Rating Action Commentary: Fitch Affirms NorthWestern Energy Group and Sub’s Ratings Upon Black Hills Merger; Outlook Stable, at 1

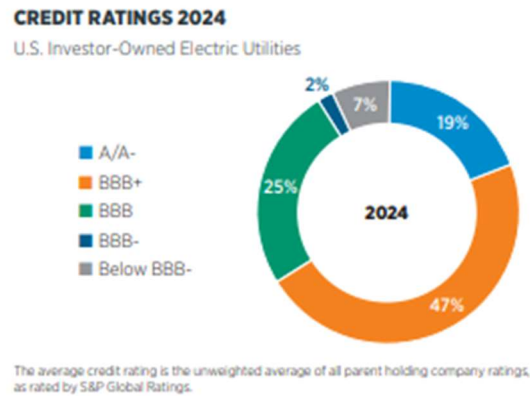
1 **Q. S&P INDICATED THAT THE RATINGS FOR NORTHWESTERN GROUP**
2 **COULD BE UPGRADED FROM BBB TO BBB+, AS A RESULT OF THE**
3 **MERGER. PLEASE EXPLAIN THE RATIONALE BEHIND THIS**
4 **POTENTIAL UPGRADE.**

5 A. Absent this Merger, NorthWestern Group’s business risk profile score with S&P is
6 “Strong,” which is one tier below the top score of “Excellent.” As discussed earlier in
7 my testimony, one of the qualitative factors that rating agencies consider is size and
8 diversity. Due to Black Hills’ current business risk profile score of “Excellent” and the
9 Merger increasing the scale and diversity of the combined entity, ParentCo will be able
10 to retain Black Hills’ business risk profile score of Excellent and its S&P ratings of
11 BBB+. Likewise, with the Positive outlook assigned to NorthWestern Group, its issuer
12 rating is expected to be uplifted to BBB+ from BBB.

13 **Q. HOW WOULD A S&P RATING UPGRADE FOR NORTHWESTERN GROUP**
14 **BENEFIT NORTHWESTERN AND ITS CUSTOMERS?**

15 A. A parent company with a higher corporate credit rating of BBB+ (three notches above
16 non-investment grade) versus the current BBB (two notches above non-investment
17 grade) would make NorthWestern an incrementally more attractive business
18 counterparty. As shown in Figure 4, the BBB+ corporate credit rating will put
19 NorthWestern Group more in line with the median credit rating for U.S. investor-
20 owned electric utilities rated by S&P, instead of being in the bottom 34%.

Figure 4: EEI U.S. 2024 IOU Credit Ratings



1

2 Overall, a higher credit rating provides for enhanced access to capital at more favorable
3 credit spreads.

4 **Q. PLEASE SUMMARIZE THE RATINGS IMPACT OF THE MERGER ON**
5 **NORTHWESTERN GROUP AND BLACK HILLS.**

6 A. As noted above, the Merger will further solidify the financial strength of NorthWestern
7 Group and Black Hills, which all rating agencies recognize. The ratings affirmations
8 from all three agencies, and the Positive outlook for NorthWestern Group, support the
9 fact that the Merger improves the financial condition of both companies from its current
10 status as standalone entities.

11 **Q. DO THE RATING AGENCIES HAVE A VIEW ON HOW A UTILITY**
12 **MERGER MAY BE SUPPORTIVE OF FINANCIAL HEALTH?**

13 A. As described in a report published by Moody's regarding the utility industry, utility
14 mergers are mainly driven by a variety of factors including: (1) building scale and
15 scope; (2) spreading fixed costs over larger asset platforms; (3) capturing operating
16 efficiencies; (4) diversification of business and operating risks and geographic and
17 weather exposure; (5) combining complementary operations; (6) generating financing

1 efficiencies/access to capital markets; (7) growth in earnings; (8) addressing rising
2 operating costs; (9) meeting demand for infrastructure-related capital expenditures; and
3 (10) better management of larger projects.⁵ The benefits of all the factors above
4 ultimately accrue to utility customers through general rate reviews.

5 **Q. HOW DO EQUITY ANALYSTS VIEW THE MERGER?**

6 A. Equity analysts have responded positively to the Merger announcement, recognizing
7 that the Merger will create a company with a larger scale both in terms of rate base and
8 customers, enhanced geographic diversification, a stronger balance sheet to withstand
9 unforeseen events, greater potential to pursue growth opportunities, and ultimately,
10 improved liquidity of the stock. For example, BMO Research comments:

11 On the whole, we view the transaction favorably as the larger
12 combined entity creates a more liquid profile with better access
13 to capital markets as they look to execute on incremental capital
14 opportunities.

15
16 Key Bank Capital Markets writes:

17 We believe the larger entity will provide opportunity for better
18 optimization and ample generation between the two portfolios
19 to better serve the territory, while also providing a better chance
20 of future load growth opportunities materializing. Additionally,
21 the combined company will result in a stronger balance sheet,
22 supporting the capital plan without any equity needs, and
23 alleviating some of the pressure associated with wildfire risks.

24
25 Jeffries opines:

26 We also see the desire for a larger balance sheet to withstand
27 wildfire events - as these principally have manifested themselves
28 as liquidity events more than anything else. We stress
29 combinations, where risk is palatable, makes eminent sense.
30

⁵ Moody's Investors Service, "Credit Quality Emphasized More in Recent U.S. Utility M&A," November 3, 2011.

1 **Q. WILL THE IMPROVED BUSINESS RISK PROFILE AND OVERALL**
2 **FINANCIAL CONDITION OF PARENTCO IMPROVE ITS ULTIMATE COST**
3 **OF CAPITAL AS COMPARED TO NORTHWESTERN GROUP AND BLACK**
4 **HILLS ON A STAND-ALONE BASIS?**

5 A. ParentCo's stronger financial condition will enhance its access to capital markets,
6 allowing it to better support the capital requirements of its utility operating subsidiaries.
7 It is important to recognize that NorthWestern Group and Black Hills compete with
8 other companies for capital. As discussed above, the overall perspective of improved
9 credit quality from the rating agencies should lower the cost of debt versus our stand-
10 alone credit profile. In addition, as shown in Figure 2 above, on a stand-alone basis,
11 NorthWestern Group and Black Hills are small relative to other utilities in the industry.
12 On a combined basis, ParentCo will possess greater scale and scope, a stronger balance
13 sheet, and opportunities to pursue growth opportunities, all of which contribute to
14 efficiency of financing.

15 **Q. DOES THE RELATIVE SIZE OF AN INVESTOR-OWNED UTILITY IMPACT**
16 **ITS ABILITY TO RAISE EQUITY CAPITAL?**

17 A. Scale influences how investors perceive risk. Smaller scale utilities have traded at a
18 discount compared to larger utilities in part due to the assessment of risk versus return
19 inherent in utility operations, which have been impacted by regulatory structure in a
20 rising cost environment, interest rate volatility, and impact of events such as wildfire.
21 Furthermore, small companies do not have the same name recognition or market
22 dominance as large companies, which affects the demand for their stock.

1 **Q. WHAT ARE YOUR CONCLUSIONS ABOUT HOW THE MERGER WILL**
2 **IMPACT EFFICIENCY OF CAPITAL FINANCING?**

3 A. Larger companies in the utility sector have better access to capital at more attractive
4 rates, terms, and conditions. It is likely that on a standalone basis, it would be more
5 costly for NorthWestern Group and Black Hills to meet their future financing needs,
6 which will lead to higher rates for customers. While NorthWestern Group and Black
7 Hills maintain investment grade credit ratings and have reasonable access to financing
8 today, competition is only increasing for the billions of dollars needed to support the
9 growth and infrastructure investments imminent in the industry across the western
10 region and the country as a whole. The larger merged company will improve the
11 utilities' ability to compete for that capital at more favorable terms for customers than
12 on a stand-alone basis.

13 **Q. PLEASE EXPLAIN HOW A PARENT WITH A HIGHER CREDIT RATING**
14 **AND A MORE ROBUST MARKET CAPITALIZATION BENEFIT**
15 **NORTHWESTERN AND ITS CUSTOMERS.**

16 A. As discussed earlier, having a fundamentally stronger parent company would not only
17 provide financial support for NorthWestern as it continues to invest in the utility
18 operations to ensure safe and reliable service, it would also provide a bigger balance
19 sheet to help the utility withstand unforeseen events such as storms and spikes in fuel
20 prices, or even in times of economic turmoil.

1 **IV. ALTERNATIVE FINANCING APPROACH POST-MERGER**

2 **Q. HOW DOES NORTHWESTERN CURRENTLY FINANCE ITS OPERATIONS**
3 **AND ITS INVESTMENTS AS A SUBSIDIARY OF NORTHWESTERN**
4 **GROUP?**

5 A. Currently, NorthWestern issues first mortgage bonds that are secured by all of its assets
6 in South Dakota and Nebraska as its main source of long-term debt financing.
7 NorthWestern also has access to up to \$150 million of liquidity from a revolving credit
8 facility provided directly to it by a group of 9 banks. As a publicly-traded parent
9 company, NorthWestern Group has the capacity to raise equity capital (i.e., sell shares
10 of NorthWestern Group) and invest the proceeds as equity infusion to NorthWestern to
11 help finance long-term projects. These activities allow the utility to maintain a capital
12 structure and access to liquidity that is supportive of its financial integrity.

13 **Q. HOW DOES BLACK HILLS FINANCE ITS OPERATING SUBSIDIARIES?**

14 A. Black Hills raises capital mainly at the holding company level and assigns debt to its
15 utility subsidiaries in the form of intercompany loans. These intercompany loans carry
16 the same interest rate as the rate paid by Black Hills with no fees or spread added.
17 Black Hills also maintains a Utility Money Pool (“UMP”), supported by its commercial
18 paper (“CP”) program, to manage the day-to-day cash requirements of all its utility
19 subsidiaries. As further detailed in Mr. Tom Stevens’ testimony, this approach of
20 financing at the holding company level allows the consolidated entity a more efficient
21 way of accessing the debt markets on behalf of its relatively small-sized utility
22 subsidiaries. The economies of scale provided by issuing larger debt amounts (i.e.,
23 better liquidity of the bonds, access to a wider range of investors) as well as access to

1 the CP market have helped lower the cost of debt financing compared to what the utility
2 subsidiaries could otherwise achieve on their own. Furthermore, these holding
3 company debts are unsecured and are not guaranteed by any of the subsidiaries.

4 **Q. WHAT ARE THE BENEFITS OF ISSUING LONG-TERM DEBT AT THE**
5 **HOLDING COMPANY LEVEL?**

6 A. As described in Mr. Stevens' testimony, being able to access the debt capital markets
7 as a larger entity allows for more efficient pricing. Today, because of NorthWestern's
8 relatively small size and therefore smaller funding needs, the utility only has access to
9 the private placement debt market. The private placement debt market is open to
10 smaller-sized debt issuances which tend to be less liquid (i.e., not tradeable in the
11 secondary markets.). Investors in this market are primarily insurance companies,
12 pension funds, and asset managers who are typically long-term holders. Due to this
13 lack of liquidity and more specific investor base, the pricing in the private placement
14 market is typically higher than in the public debt markets for similarly rated debt
15 securities. The public debt market, on the other hand, favors debt issuances with a
16 minimum size of \$300 million. This minimum size allows the debt instrument to be
17 "index-eligible" (i.e., debt instruments that meet the criteria to be included in a major
18 fixed-income index) and ensures that there is liquidity for the bonds to trade in the
19 secondary markets, giving investors the flexibility to divest or invest as their appetites
20 allow. This flexibility opens up the market for the debt to a wider investor base, thus
21 allowing for more efficient pricing. Given the fact that NorthWestern Group and Black
22 Hills' utility subsidiaries generally do not need \$300 million of debt financing in any

1 given year, consolidating the debt financing at the holding company level allows the
2 utilities access to the competitive pricing available to index-eligible debt transactions.

3 **Q. PLEASE SUMMARIZE BLACK HILLS' MONEY POOLING**
4 **ARRANGEMENT.**

5 A. Black Hills' money pooling arrangement is described in detail in the testimony of Mr.
6 Stevens. In summary, short-term liquidity for the utility subsidiaries of Black Hills is
7 provided via the UMP, which is primarily funded through CP borrowings at Black
8 Hills. The UMP allows Black Hills' utility subsidiaries to access short-term borrowings
9 at very cost-effective rates compared to what they would be subject to using bank-
10 provided credit facilities.

11 **Q. IS NORTHWESTERN PROPOSING TO MODIFY ITS FINANCING**
12 **APPROACH AFTER THE MERGER?**

13 A. We will seek the most efficient sources of capital available and make determinations
14 as to funding after close of the Merger. Once NorthWestern becomes a subsidiary of
15 ParentCo, there may be benefits to customers of accessing financing in a manner
16 consistent with how Black Hills currently funds its subsidiaries, via parent-provided
17 loans and money pooling arrangements. As described in Mr. Stevens' testimony and
18 above, Black Hills is able to leverage economies of scale in financing transactions at
19 the parent company, resulting in lower financing costs for customers.

20 **Q. IF FINANCING AT THE PARENTCO IS UTILIZED FOR NORTHWESTERN,**
21 **HOW WOULD THIS IMPACT ITS REGULATORY CAPITAL STRUCTURE?**

22 A. Currently, NorthWestern's regulatory capital structure is based on its long-term debt,
23 which are secured by first mortgage bonds, and its book equity. If NorthWestern were

1 to use long-term parental loans to finance its rate base, then these long-term parental
2 loans, together with all outstanding first mortgage bonds will be included in the long-
3 term debt component of NorthWestern's regulatory capital structure.

4 **Q. WILL THE PROPOSED FINANCING APPROACH IMPACT**
5 **COMMISSION'S OVERSIGHT ON DEBT FINANCING AT**
6 **NORTHWESTERN?**

7 A. No. As it does today, NorthWestern will continue to seek Commission approval to
8 issue debt securities pursuant to SDCL § 49-34A-29.

9 **Q. WHY IS HAVING THIS FLEXIBILITY IN FINANCING APPROACH**
10 **POSITIVE FOR CUSTOMERS?**

11 A. As explained earlier, the flexibility of using parental debt may allow NorthWestern
12 access to a lower cost of financing, which would ultimately be passed on to customers
13 in general rate reviews. Having flexibility to finance in the most efficient means based
14 on market conditions ultimately provides value to customers. Moreover, Black Hills
15 has been financing all of its utility subsidiaries, including Black Hills Power in South
16 Dakota, using this approach.

17 **Q. HOW IS THE POST-MERGER PARENTAL SUPPORT FOR**
18 **NORTHWESTERN EXPECTED TO BE DIFFERENT FROM PRE-MERGER?**

19 A. Having a parent with a stronger risk profile will help support NorthWestern in terms of
20 both debt and equity financing.

1 **Q. NOTWITHSTANDING THE APPROACH YOU HAVE OUTLINED ABOVE,**
2 **WILL THE COMBINED COMPANY MAINTAIN SEPARATION OF**
3 **OPERATIONS AND ACCOUNTABILITY AMONGST THE UTILITY**
4 **SUBSIDIARIES OF PARENTCO POST-MERGER?**

5 A. Yes. NorthWestern will continue to keep its books and records separate from ParentCo
6 and other subsidiaries. NorthWestern will not be providing any direct guarantees or
7 loans to ParentCo. The parent loans from ParentCo will be unsecured and will carry
8 the same all-in costs as what ParentCo will be paying. Most importantly, ParentCo will
9 review each subsidiary's capital structure quarterly and assign debt to NorthWestern
10 and all its utility subsidiaries to ensure that the utility subsidiaries are able to maintain
11 healthy balance sheets. NorthWestern and the other utility subsidiaries will only be
12 obligated for their assigned portions of the parent loans.

V. COST ALLOCATION

13 **Q. SUBSEQUENT TO THE CLOSING OF THE MERGER, HOW WILL THE**
14 **UTILITIES' OPERATIONS BE HANDLED IN THE ACCOUNTING AND**
15 **REPORTING SYSTEMS?**

16 A. Each operating subsidiary will have a separate general ledger similar to NorthWestern
17 Group's and Black Hills' general ledgers today, consistent with their current structures.
18 Reporting of regulated entities will not change as a result of the Merger.

19 **Q. PLEASE DESCRIBE NORTHWESTERN GROUP'S EXISTING COST**
20 **ALLOCATION METHODOLOGIES.**

21 A. All employees within the NorthWestern Group organizational structure are employees
22 of NorthWestern Corporation. Therefore, NorthWestern Corporation provides shared

1 operating and administrative services to NorthWestern and other NorthWestern Group
2 companies. These activities are detailed in an “Intercompany Services Agreement”
3 with associated cost allocations rules that were developed utilizing National
4 Association of Regulatory Utility Commissioners guidelines.

5 The primary approach to allocation of costs at each level is 1) to direct charge
6 each operating company/operating segment, to the extent practicable, for specific
7 products or services utilized by the operating company/operating segment; 2) to
8 allocate shared costs based on the primary cost driver, or a relevant proxy in the absence
9 of a primary cost driver; and 3) to ensure that unauthorized subsidization between non-
10 regulated affiliate activities and regulated affiliate activities does not occur.

11 **Q. PLEASE DESCRIBE BLACK HILLS’ EXISTING COST ALLOCATION**
12 **METHODOLOGIES.**

13 A. Black Hills is a registered holding company, under which its subsidiary, Black Hills
14 Service Company, LLC (“BHSC”), supplies corporate support functions and
15 distributes costs to Black Hills’ subsidiaries. BHSC distributes its incurred costs
16 consistent with the BHSC Cost Allocation Manual. A key component in distributing
17 BHSC costs is distinguishing between direct and indirect costs. Costs for shared
18 services are distributed to its affiliates within the Black Hills organization through
19 either direct assignment or distribution (charging) of costs or indirect allocation. Costs
20 are direct charged when reasonably possible. Costs that cannot be directly assigned nor
21 distributed reasonably to the applicable business units use indirect allocation.

1 **Q. DO YOU ANTICIPATE SIGNIFICANT CHANGES TO THE EXISTING COST**
2 **ALLOCATION METHODOLOGIES UPON CLOSING THE MERGER?**

3 A. Initially upon closing of the Merger, the existing cost allocation methodologies for each
4 company will remain in place since the NorthWestern Group organization will be
5 substantially unchanged other than to fall under ParentCo, as an intermediate holding
6 company of NorthWestern. Similarly, the Black Hills organization will also be
7 substantially unchanged, with the exception of NorthWestern Group becoming a direct
8 subsidiary of ParentCo. Furthermore, as described above and in each of the respective
9 cost allocation methodologies themselves, there are significant similarities between the
10 direct/indirect cost charging processes and allocation methodologies used by
11 NorthWestern Group and by Black Hills.

12 While we do not expect the existing NorthWestern Group and Black Hills' cost
13 allocation methodologies to initially be impacted by the Merger, we expect to evaluate
14 this process as part of the integration planning discussed by Ms. Nooney.
15 NorthWestern commits to filing changes to the cost allocation methodologies with the
16 Commission through the appropriate regulatory process, as applicable, after the Merger
17 closes.

VI. TREATMENT OF MERGER COSTS

18 **Q. WHAT TYPES OF COSTS DO YOU ANTICIPATE IN CONNECTION WITH**
19 **THE MERGER?**

20 A. There are two types of costs we expect from the Merger. The first type is what I would
21 define as "Transaction Costs." These include costs such as banking, legal, financial,
22 regulatory, and other advisory costs that are directly related to executing the

1 transaction, including negotiation, due diligence, and closing of the Merger. The
2 second type of costs would be what I would refer to as “Transition Costs.” These are
3 costs necessary to create the Merger efficiencies and savings, and to ensure that the
4 post-Merger integration is effective. Examples of these costs are integration planning,
5 unification of technology platforms and systems, and termination fees for duplicate
6 contracts or leases. NorthWestern Group and Black Hills will separately identify and
7 track both Transaction Costs and Transition Costs on their books and records.

8 **Q. ARE THE JOINT APPLICANTS INTENDING TO ASK FOR RATE**
9 **RECOVERY OF TRANSACTION COSTS IN ANY FUTURE RATE**
10 **PROCEEDING?**

11 A. No. The Joint Applicants will not seek recovery of Transaction Costs in rates.
12 Furthermore, we will maintain the burden of proof to clearly identify where all
13 transaction costs related to the Merger have been recorded and confirm that none of
14 these costs are included in the requested revenue requirement in future proceedings.

15 **Q. WHAT ARE THE JOINT APPLICANTS PROPOSING ON THE RECOVERY**
16 **OF TRANSITION COSTS?**

17 A. The Joint Applicants may request Commission authorization to defer and recover any
18 Transition Costs in a future proceeding provided that demonstrated Merger savings
19 exceed the requested recovery of Transition Costs. These Transition Costs are
20 necessary to produce the realized Merger savings, which will benefit customers in the
21 form of lower revenue requirements in future rate cases than would be the case absent
22 the Merger.

VII. CONCLUSION

1 **Q. FROM YOUR PERSPECTIVE, HOW DOES THE SCALE ACHIEVED IN**
2 **THIS MERGER BETTER POSITION NORTHWESTERN GROUP AND**
3 **BLACK HILLS TO SERVE SOUTH DAKOTA CUSTOMERS?**

4 A. In addition to the financial strength described above, the combined company will
5 provide us with the opportunity to increase operating efficiencies by applying best
6 practices and consolidating shared services and technological platforms to spread costs.
7 As a larger entity, the utilities will be able to leverage supplier relationships to optimize
8 pricing and mitigate supply chain issues, more effectively pursue critical investments
9 with the increased human capital and spread fixed operating expenses over a greater
10 base of employees and customers. The bigger combined balance sheet will allow the
11 utility subsidiaries to better absorb the impact of extreme weather or economic
12 downturns, as well as to comply with evolving regulations with the support of a
13 stronger parent company. All these benefits will eventually accrue to customers in the
14 form of long-term rate stability.

15 **Q. ARE THERE RISKS OR DOWNSIDES TO THIS MERGER FOR**
16 **CUSTOMERS OF NORTHWESTERN?**

17 A. No. Structured as a tax-free, stock-for-stock exchange, the Merger requires no
18 transaction debt or exchange of cash and/or other securities, and therefore, would have
19 no negative impact on the financial positions of the regulated utilities for both
20 companies. The Merger will not result in increased debt for NorthWestern, nor will it
21 shoulder any transaction costs or seek recovery of accounting goodwill on its balance
22 sheet. NorthWestern Group's and Black Hills' current cost allocation methodologies,

1 although not identical, are very much aligned, with no material changes to the approach
2 to cost allocation amongst the utility subsidiaries expected.

3 **Q. IN CONCLUSION, WHY IS THE MERGER IN THE PUBLIC INTEREST**
4 **FROM A FINANCIAL PERSPECTIVE?**

5 A. The Merger will not adversely impact South Dakota customers or NorthWestern
6 Group/Black Hills. In fact, the Merger enhances the overall risk profile of
7 NorthWestern Group/Black Hills relative to its standalone position. The benefits that
8 this stronger financial foundation provides to South Dakota customers are clear and are
9 summarized below:

- 10 • Enhanced resiliency and stability of financial performance for the combined
11 entity due to increased scale;
- 12 • Strengthened credit profile with an improved business risk through increased
13 diversification of business mix and geographical / regulatory exposure resulting
14 in reduced cost of capital;
- 15 • Stronger access to capital which will support investments in reliability,
16 resiliency, compliance, and resource adequacy critical to South Dakota
17 customers;
- 18 • Sharing of operational best practices promotes efficiencies and optimizes
19 execution of strategic priorities; and
- 20 • Better positioned to execute on infrastructure projects by leveraging purchasing
21 power and mitigating supply chain challenges.

22 Collectively, these benefits ensure enhanced reliability and ongoing affordability for
23 the customers we serve.

1 **Q. FROM YOUR PERSPECTIVE, WILL THE MERGER CHANGE THE**
2 **COMMISSION'S REGULATORY AUTHORITY OVER CAPITAL**
3 **STRUCTURE OR COST RECOVERY FOR NORTHWESTERN?**

4 A. No. The Merger does not contemplate a change in rates, and approval of the proposed
5 Merger does not alter the Commission's authority in any future rate-making dockets.

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

7 A. Yes.

VERIFICATION

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

/s/ Crystal D. Lail
Crystal D. Lail