BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN RE: **IN THE MATTER OF THE APPLICATION OF MIDAMERICAN ENERGY COMPANY FOR AUTHORITY TO INCREASE NATURAL GAS RATES**	**DOCKET NO. NG26-__**

DIRECT TESTIMONY
OF
BLAKE M. GROEN

I. WITNESS INFORMATION

Q. Please state your name and business address.

A. My name is Blake M. Groen. My business address for MidAmerican Energy Company ("MidAmerican" or "Company") is 4299 NW Urbandale Drive, Urbandale, Iowa 50322.

Q. By whom are you employed and in what capacity?

A. I am employed by MidAmerican as Vice President and Chief Financial Officer.

Q. Please describe the responsibilities of your current position.

A. As Vice President and Chief Financial Officer, I am responsible for accounting, financial reporting, regulatory reporting, tax and budgeting, and forecasting activities for MidAmerican and MidAmerican Funding, LLC.

Q. Please describe your education and business experience.

A. I am a 2007 graduate of Creighton University where I received a Bachelor of Science in Business Administration degree with majors in accounting and finance. I am a Certified Public Accountant and worked in various capacities for Ernst and Young LLP until 2013, at which time I joined Berkshire Hathaway Energy, a holding company that owns a diversified portfolio of locally managed businesses principally engaged in the energy industry. Berkshire Hathaway Energy is the indirect parent of MidAmerican and MidAmerican Funding, LLC. I have worked in a number of finance and supervisory roles including Manager of Accounting Projects, Manager of Accounting Policy and Special Projects, and Manager of External Financial Reporting for Berkshire Hathaway Energy. I also have held the roles of Director of Financial and Corporate Planning and Director of Financial Planning and Reporting for NVE Holdings, LLC, an affiliated energy holding company headquartered in Nevada. I joined MidAmerican in 2022 as Senior Director, Accounting, and began my current role in June 2023.

Q. Have you testified before the South Dakota Public Utilities Commission previously?

A. Yes, I have testified before the South Dakota Public Utilities Commission in NG22-005 and have also testified before the Iowa Utilities Commission, the Illinois Commerce Commission, and the Public Utilities Commission of Nevada.

II. PURPOSE OF DIRECT TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support MidAmerican's South Dakota jurisdictional gas rate filing in the following areas:

- South Dakota jurisdictional gas revenue requirement
- South Dakota jurisdictional gas test year operating income
- Capital structure and weighted average cost of capital

Q. In addition to your testimony, are you sponsoring any exhibits?

A. Yes, I am sponsoring Exhibit BMG 1.1, which includes the following schedules:

- Schedule 1: Summarizes revenue requirement
- Schedule 2: Summarizes operating income
- Schedule 3: Summarizes pro forma adjustments
- Schedules 4-17: Detail the pro forma adjustments and are further supported by accompanying workpapers as necessary
- Schedules 25-27: Detail the capital structure

- Schedules 18-24: Not used and are placeholders in the template for adjustments not proposed

Q. Please summarize your direct testimony.

A. My direct testimony supports MidAmerican's South Dakota gas rate filing by supporting the test year operating income and related adjustments and supporting the test year capital structure and weighted average cost of capital. We are using a historical test year ending December 31, 2025, with various pro forma adjustments for known and measurable changes that will occur in the 24 months from the end of the test year as allowed by South Dakota statute. Based on the operating income and expenses included in the filing, MidAmerican proposes a South Dakota jurisdictional gas revenue requirement of $48.4 million and a revenue deficiency under current rates of $8.9 million. Finally, my testimony supports using MidAmerican's total company forecasted capital structure and cost of capital, including a proposed 54.481% common equity / 45.519% long term debt mix, a 10.500% return on equity, and a 7.782% weighted average cost of capital, consistent with the average capital structure for the 2025 test year. Given recent increases in interest rates, higher capital costs across utility sectors, and the increasing returns available from alternative investments, this market-based rate of return is reasonable and essential for MidAmerican to continue to support credit quality, attract capital, finance its system efficiently and promote affordability.

III. REVENUE REQUIREMENT

Q. Please describe Exhibit BMG 1.1 Schedule 1.

A. Exhibit BMG 1.1 Schedule 1 summarizes the South Dakota jurisdictional gas revenue requirement. It reflects a revenue deficiency of $8.9 million. The adjusted test year rate base amount shown on line 1 is discussed by Witness Aimee S. Rooney. The cost of capital amount shown on line 2 is summarized on Exhibit BMG 1.1 Schedule 25 and is discussed later in my testimony. The adjusted test year operating income amount shown on line 4 is summarized on Exhibit BMG 1.1 Schedule 2 and is discussed in more detail below.

Q. Have MidAmerican's 2025 books and records been audited by independent auditors?

A. Yes, Deloitte & Touche LLP performed an independent audit of MidAmerican's 2025 financial statements and issued an unqualified audit opinion.

IV. OPERATING INCOME

Q. Please describe Exhibit BMG 1.1 Schedule 2.

A. Exhibit BMG 1.1 Schedule 2 summarizes the test period and pro forma South Dakota jurisdictional gas operating income. Column (b) of this schedule presents actual South Dakota jurisdictional gas amounts, as reflected in MidAmerican's books and records, for the year ended December 31, 2025. Column (c) presents adjustments to test year actual amounts as summarized on Exhibit BMG 1.1 Schedule 3. Column (d) presents adjusted test year operating income. Column (e) presents the revenue adjustment supported by this filing.

V. PRO FORMA ADJUSTMENTS

Q. Please describe Exhibit BMG 1.1 Schedule 3.

A. Exhibit BMG 1.1 Schedule 3 summarizes 14 adjustments to test period South Dakota jurisdictional gas operating income. Individual adjustments, with references to supporting workpapers, are presented in Schedules 4 through 17.

Q. Please describe the interest synchronization adjustment on Exhibit BMG 1.1 Schedule 4.

A. This adjustment reduces income tax expense and is necessary to synchronize the long-term interest deduction reflected in the test-year income tax calculation with the interest expense reflected in the revenue requirement. MidAmerican records an estimate for the interest synchronization adjustment in its financial statements throughout the year and this pro forma adjustment merely updates those estimates for the rate base and cost of debt values supported in this case.

Q. Please describe the payroll adjustment on Exhibit BMG 1.1 Schedule 5.

A. This adjustment increases test year labor expense for known and measurable pay increases. The adjustment includes the annualization of pay increases that were effective during 2025 for employees represented by three union locals and the annualized 2026 pay increases for all employees, including the 2026 increases for those three locals and the January 1, 2026, increases for salaried employees. The adjustment also includes increases for benefit costs that are directly impacted by base pay increases, including payroll taxes and Company 401(k) match.

Q. Please describe the adjustment for weather normalization on Exhibit BMG 1.1 Schedule 6.

A. This adjustment increases test year operating revenue for the impact of unseasonable weather during the test year. Witness Derek C. Nelson supports this adjustment.

Q. Please describe the retirement plan cost adjustment on Exhibit BMG 1.1 Schedule 7.

A. This adjustment increases cost of service for changes in expense for post-employment benefits. The adjustment is based on the difference between a 2024-2026 three-year average of such expenses and amounts included in the test year for these plans, consistent with the treatment in past rate cases. Amounts recorded for these plan expenses result from actuarial calculations pursuant to the requirements of Accounting Standards Codification Topic (ASC) 715.

Q. Please explain why the adjustment is based on a three-year average of plan costs.

A. Expense amounts for these plans can vary significantly from year to year due to changes in the actuarial assumptions underlying the ASC 715 calculations and changes in the market value of plan assets. ASC 715 calculations are significantly influenced by market-driven factors, including interest rate movements, fluctuations in investment values, and pension settlement activity. Generally, higher interest rates reduce plan liabilities, while lower interest rates increase them. Similarly, gains in plan asset values reduce plan costs, whereas declines in asset values increase them. A three-year averaging approach moderates the effects of these fluctuations and results in a more representative, normalized level of benefit plan expense.

Q. Please describe the adjustment for depreciation on rate base pro forma adjustments summarized on Exhibit BMG 1.1 Schedule 8.

A. This adjustment, supported by Witness Rooney, increases depreciation expense for the depreciation associated with the rate base adjustments.

Q. Please discuss the test year sales growth adjustment summarized on Exhibit BMG 1.1 Schedule 9.

A. This adjustment estimates increased revenue that would result from sales reflective of period-ending residential and commercial customer counts compared to average customer counts for those classes. A similar adjustment has not been proposed for industrial or transportation customers because of the varying usage patterns among customers within these classes.

Q. Please describe the regulatory asset amortization summarized on Exhibit BMG 1.1 Schedule 10.

A. This adjustment increases operating income to reflect recovery of the deferred regulatory balance associated with the McCook Lake flooding, as approved by the South Dakota Public Utilities Commission in Docket NG24-013, as well as the under-collected Clause EECR (Energy Efficiency Cost Recovery) balance recoverable under the tariff. These amounts were not sought for recovery in the 2022 general rate case since they were still being reconciled and confirmed. MidAmerican is not requesting to recover any carrying costs on the under-collected balance. Witness Nelson discusses EECR further in his testimony. The adjustment assumes a three-year amortization period for both regulatory assets. Three years is a reasonable normalization period as it aligns with anticipated future filings.

Q. Please describe the rate case expense adjustment summarized on Exhibit BMG 1.1 Schedule 11.

A. This adjustment normalizes the estimated incremental, out-of-pocket costs of preparing and litigating this case by amortizing such costs over three years. Three years is a reasonable normalization period and is consistent with the approach used for regulatory assets. Witness Nelson supports the estimated costs used in this adjustment.

Q. Please describe the late payment charge adjustment summarized on Exhibit BMG 1.1 Schedule 12.

A. This adjustment eliminates late payment revenue recorded during the test year. This rate treatment is in lieu of using actual payment collection days in MidAmerican's working capital calculation, where a 20-day period is used instead. This adjustment is consistent with the ratemaking treatment of this item in previous MidAmerican rate proceedings.

Q. Please describe the adjustment for long-term incentive partnership costs on Exhibit BMG 1.1 Schedule 13.

A. This adjustment decreases test year operating expenses for costs accrued for the long-term incentive partnership plan. This plan, administered by Berkshire Hathaway Energy Company, provides incentive payments to selected participants based, in large part, on financial performance factors. MidAmerican is not seeking recovery for these costs at this time because the award for such pay is predominantly driven by achieving net income targets and is consistent with past treatment of such costs in South Dakota.

Q. Please describe the adjustment for tax expense on Exhibit BMG 1.1 Schedule 14.

A. This adjustment adjusts property tax expense. It decreases property tax expense for entries made during 2025 to true up 2024 expense following the payment of amounts to taxing authorities. Since these adjustments pertain to 2024, and not 2025, they are not appropriate to include in the test year for this case.

Q. Please describe the adjustment for PGA costs and revenue summarized on Exhibit BMG 1.1 Schedule 15.

A. This adjustment removes from the revenue requirement all purchased gas expense and offsetting revenue amounts flowing through the purchased gas adjustment clause. These costs and related recoveries are accounted for in a separate rider.

Q. Please describe the adjustment for economic development expenditures on Exhibit BMG 1.1 Schedule 16.

A. This adjustment removes a portion of South Dakota economic development expenses included in the test year cost of service. In Docket NG21-003, the Commission approved the recovery of one half of economic development expenses estimated for 2021. While a comparable request and approval for 2025 economic development spending has not yet occurred, this adjustment contemplates reducing test year actual expense to reflect recovery of one half of the estimated $125,000 of economic development costs estimated for 2026, consistent with amounts recognized in the 2025 test year.

Q. Please describe the adjustment for wholesale revenue reclass on Exhibit BMG 1.1 Schedule 17.

A. This adjustment removes the wholesale purchased gas expense and offsetting revenue amounts flowing through wholesale sales from the revenue requirement.

VI. CAPITAL STRUCTURE AND COST OF CAPITAL

Q. Please discuss MidAmerican's cost of capital, as summarized on Exhibit BMG 1.1 Schedule 25.

A. The weighted average cost of capital summarized on Schedule 25 presents MidAmerican Energy's pro forma average costs for long-term debt and common equity for the twelve months ended December 31, 2025. The weighted average cost of capital is 7.782%.

Q. Why was the twelve months ended December 31, 2025, used to measure the cost of capital?

A. Calendar year 2025 data was used to calculate the capital structure and weighted average cost of capital to align with rate base, which is based on a 13-point average from the end of December 2024 to the end of December 2025 in order to capture a full 12 months of the balance sheet, and align with the utility operating income, which is for the calendar year 2025 data. I believe this approach results in a reasonable capital structure as it reflects MidAmerican's actual financing practices and the average capital structure maintained throughout the test year. Because it represents actual capitalization used to finance utility assets and operations, it provides the most accurate representation of the company's cost of providing service.

Q. Were any adjustments to actual values made?

A. Generally not, although gains and losses and associated amortizations on past early redemptions of debt that were not deferred for book purposes are included in the cost of long-term debt calculation consistent with treatment in past South Dakota gas rate cases.

Q. Please explain why MidAmerican did not establish capitalization for each jurisdiction.

A. MidAmerican does not establish capitalization for each jurisdiction because there are not separate legal entities for each jurisdiction, and we manage financing at a total company level and not at a jurisdictional level. This lowers customer costs as larger debt transactions can be executed more efficiently, resulting in lower fees on a per-dollar basis, allows reduced borrowing rates as risk is spread across a broader base, and provides more stable access to capital, all while preserving full regulatory transparency into the capital structure.

Q. What are MidAmerican's current long-term debt ratings?

A. Currently, MidAmerican's long-term debt rating is Aa2 from Moody's Investors Service and A from S&P Global. Both ratings are investment grade and rank among the strongest in the utility sector, helping to lower MidAmerican's borrowing costs. These strong ratings directly benefit customers through reduced financing costs incorporated into rates.

Q. Please discuss the determination of the cost of MidAmerican's long-term debt component on Exhibit BMG 1.1 Schedule 26.

A. The cost of long-term debt was determined by dividing the sum of (1) interest costs, and (2) the amortization of long-term debt discount, issuance expense, and loss on reacquired debt, less (3) the amortization of gains on reacquired debt and premiums on long-term debt, by the 13-point average outstanding balance. The 13-point outstanding balance was determined by calculating the average actual balances from December 2024 through December 2025 for the following components:

a. Each issue of long-term debt
b. Unamortized long-term debt premium
c. Unamortized gain on reacquired long-term debt
d. Unamortized debt discount
e. Unamortized issuance expense
f. Unamortized loss on reacquired long-term debt

Long-term debt includes imputed debt for certain long-term transmission service obligations that function economically like financing arrangements. These obligations arise from electric transmission facilities services agreements containing payment schedules that extend for many years are discounted at the rate of return approved by MISO for such agreements. For cost of debt purposes, these agreements are accounted for and treated similarly to zero-coupon debt.

Q. Please discuss the determination of MidAmerican's cost of common equity.

A. MidAmerican's cost of common equity is 10.50%. This amount is within the reasonable range established by expert testimony from Witness Ann E. Bulkley and reflects a balanced application of cost of service principles and customer affordability, while still supporting MidAmerican's credit quality and continued access to capital.

Q. Why is it important to allow MidAmerican to earn the proposed test year cost of capital through the authorized return on rate base?

A. Our ability to provide safe, adequate, and reliable service at just and reasonable rates depends on maintaining strong financial integrity and continued access to capital on reasonable terms. A reasonable, market-based authorized return provides MidAmerican an opportunity to attract the capital needed to operate, maintain, and modernize the system. When investors can expect returns comparable to those available on investments with similar risk, MidAmerican is better positioned to maintain credit quality and access financing efficiently. These benefits help keep borrowing costs, and therefore customer costs, as low as reasonably possible over the long term.

If MidAmerican were not reasonably able to earn its cost of capital over time, our credit quality and access to capital markets could be adversely affected, increasing financing costs and, ultimately, the cost for customers. Higher financing costs can make necessary system investments more expensive. By contrast, a reasonable authorized return supports efficient access to capital and disciplined investment planning, which promotes rate stability and long-term affordability for customers.

Q. Are there recent regulatory outcomes that illustrate the importance of providing a reasonable opportunity to earn the cost of capital?

A. Yes. Recent outcomes in utility proceedings underscore that credit quality and access to capital are closely linked to a utility's reasonable opportunity to earn its cost of capital. In several cases, authorized returns and related cost-recovery decisions that resulted in tighter financial metrics or greater regulatory uncertainty led credit rating agencies to comment on the potential implications for a utility's credit profile.[1] Maintaining investment-grade credit quality helps utilities finance necessary infrastructure at lower cost; those lower financing costs support long-term rate stability and help customers by reducing the overall cost of providing safe and reliable service. For that reason, providing a reasonable, market-based opportunity to earn the cost of capital can serve customers' long-term interests by supporting efficient investment and access to capital on reasonable terms.

VII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.

[1] *See, e.g.,* Fitch Ratings, Fitch Downgrades Pinnacle West to 'BBB'; Affirms Arizona Public Service Co. at 'BBB+' (Mar. 26, 2024) (downgrading Pinnacle West from 'BBB+' to 'BBB' and AZ Public Service Co. from 'A-' to 'BBB+'), https://www.fitchratings.com/research/corporate-finance/fitch-downgrades-pinnacle-west-to-bbb-affirms-arizona-public-service-at-bbb-26-03-2024 (last visited Aug. 13, 2026); *see also e.g.*, S&P Global Ratings, Eversource Energy Issuer Credit Rating Lowered To 'BBB+' From 'A'; Subsidiaries Ratings Also Lowered; Outlooks Stable (Dec. 9, 2024), https://www.spglobal.com/ratings/es/regulatory/article/-/view/type/HTML/id/3297352 (last visited Aug. 13, 2026).