

BLACK HILLS POWER, INC.
SD PUC DOCKET: EL14-026
RATE CASE

REQUEST DATE : April 29, 2014

RESPONSE DATE : July 25, 2014

REQUESTING PARTY: SDPUC Staff

SDPUC Request No. 2-11:

Provide complete copies of all incentive compensation plans in effect during the test year and to date.

- a) Provide the South Dakota amounts included in the test year for each plan and the South Dakota incentive compensation payouts for the year 2013.
- b) Describe any plan changes that occurred from 2012 to present.
- c) For each plan, provide the percentage of payouts related to operating and financial criteria for the test year and the year 2013.

Response to SDPUC Request No. 2-11:

Attachments 2-11A through 2-11F include the plan documents for the incentive compensation plans in effect during the test year and to date.

- a. As discussed in the testimony of Laura Patterson, Black Hills Corporation offers the Annual Incentive Plan (AIP) in order to motivate and reward employees for achieving and exceeding goals that benefit customers and shareholders. The incentive compensation paid by Black Hills Corporation is a key factor in the Company's ability to recruit and retain employees. This is especially true given that the base compensation for Black Hills Corporation's employees is benchmarked at or below the market median level. Therefore, if the Company did not offer incentive compensation, it would need to significantly increase base compensation levels or find an alternative method for recruiting and retaining employees that produce the desired performance results since the resulting total compensation would not be sufficiently competitive. Confidential attachment 2-11G provides the approximate amounts listed in the test year and calendar year 2013 for each plan for each business unit.

The Restricted Stock plan is described on page 14 of Laura Patterson's testimony and the plan documents have been included as confidential attachments 2-11A and 2-11B. This plan is designed for retention of key personnel at Black Hills Corporation and not as incentive compensation related to EPS results. The Performance Plan is also a long-term incentive plan similar to the Restricted Stock plan, but the awards granted under this plan are based on three years of Total Shareholder Return performance. This plan meets the nature and spirit of the compensation philosophy in that it is a tool to attract, motivate, retain and encourage the development of highly qualified employees. As described on pages

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13-14 of Laura Patterson's testimony, the operational excellence recognized through the Performance Plan and Restricted Stock Plan provides focus for key employees and the performance achieved directly results in lower costs for customers. A financially sound and well performing Company is best positioned to make the necessary reinvestment needed to ensure safe and reliable service is provided to customers now and into the future.

- b. For the period from 2012 to present, there were no changes to the annual incentive plan.
- c. The Company's compensation plans are designed to deliver Total Target Direct Compensation (TTDC) that is competitive at the median level by job position for our industry. In addition, our practice is to design the various components of total compensation to be consistent with prevalent practices among Black Hills Power's peer companies with which it competes for talent. Based on this prevalent practice, TTDC is comprised of up to three distinct compensation components: base salary, short-term incentives, and long-term incentives. Each component is benchmarked separately to industry median levels and is designed to deliver median levels of compensation for planned levels of performance. In addition, each component is designed to provide employees with incentive to exceed target levels of operational and financial performance.

To insure the Company remains competitive and effectively attracts, retains, and motivates qualified employees at all levels, it must offer compensation programs that most often deliver this median or target level of total compensation. Failure to do so would significantly undermine the Company's competitiveness for qualified talent, increase employee turnover, and ultimately compromise its capability to provide safe and reliable service to its customers. Offering compensation programs that provide median total compensation is a proven, prevalent and prudent practice that supports these outcomes.

Attachments:

- 2-11A – Confidential 2005 Omnibus Incentive Plan
- 2-11B – Confidential 2ND AMENDMENT TO THE 2005 OMNIBUS PLAN
(5.25.10)
- 2-11C – Confidential 2012 UIP Plan Document (final)
- 2-11D – Confidential 2012 STIP Plan Document (Non-Officers – final)
- 2-11E – Confidential 2013 AIP Plan Document FINAL 1.4.13
- 2-11F – Confidential 2013 STIP Plan Document (Non-Officers) for 1-1-13
- 2-11G – Confidential Payouts by test year and 2013