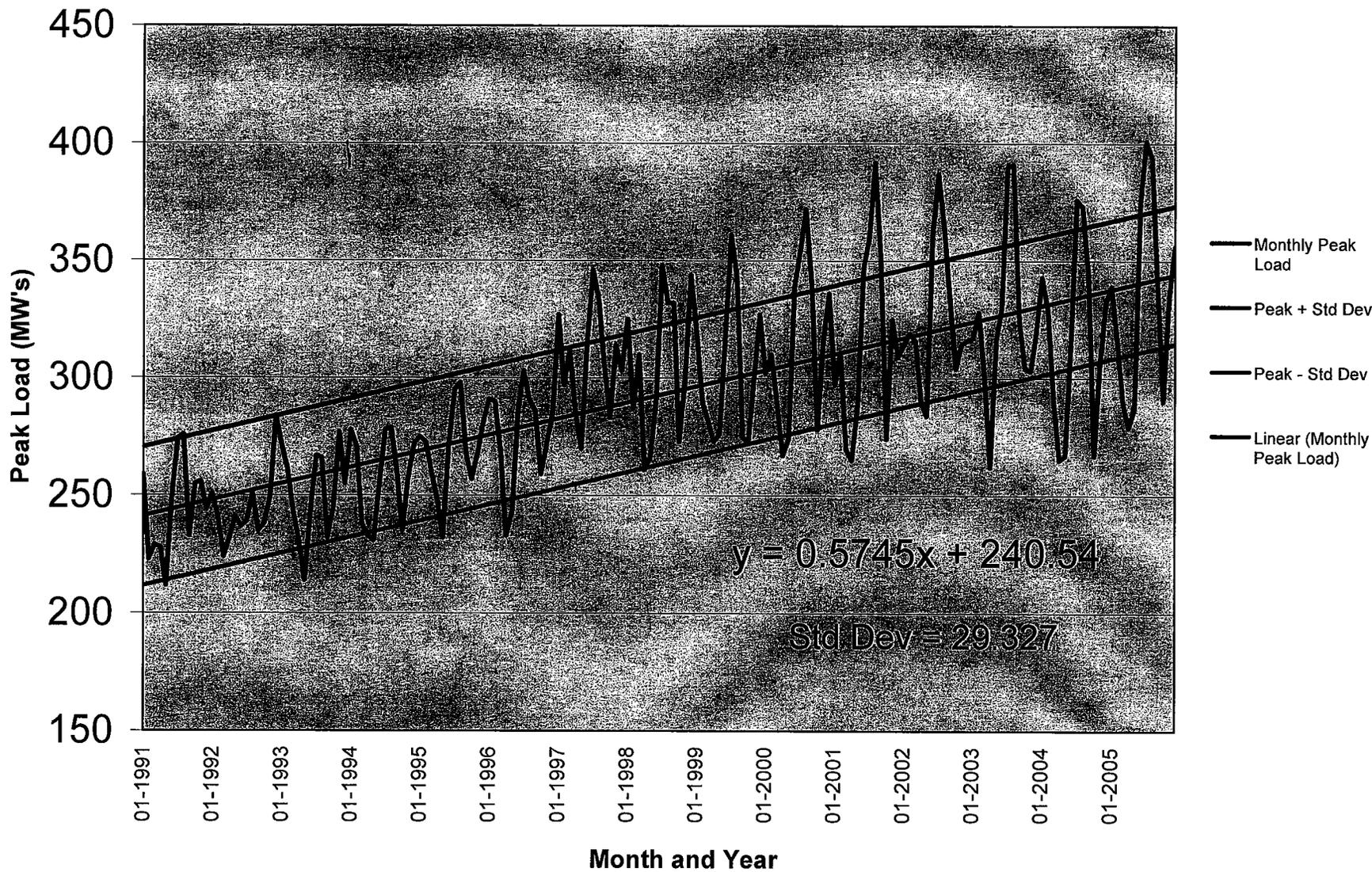
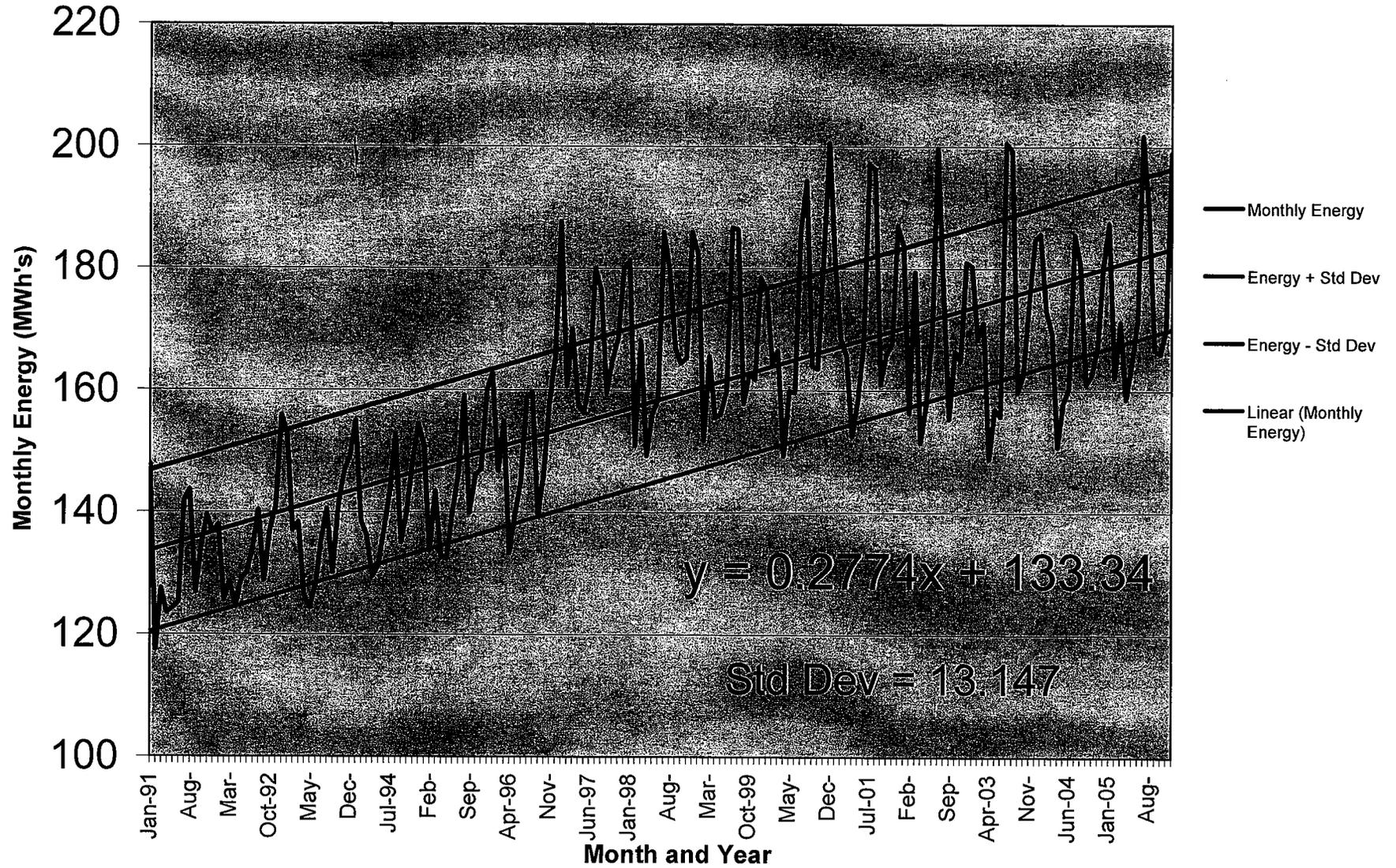


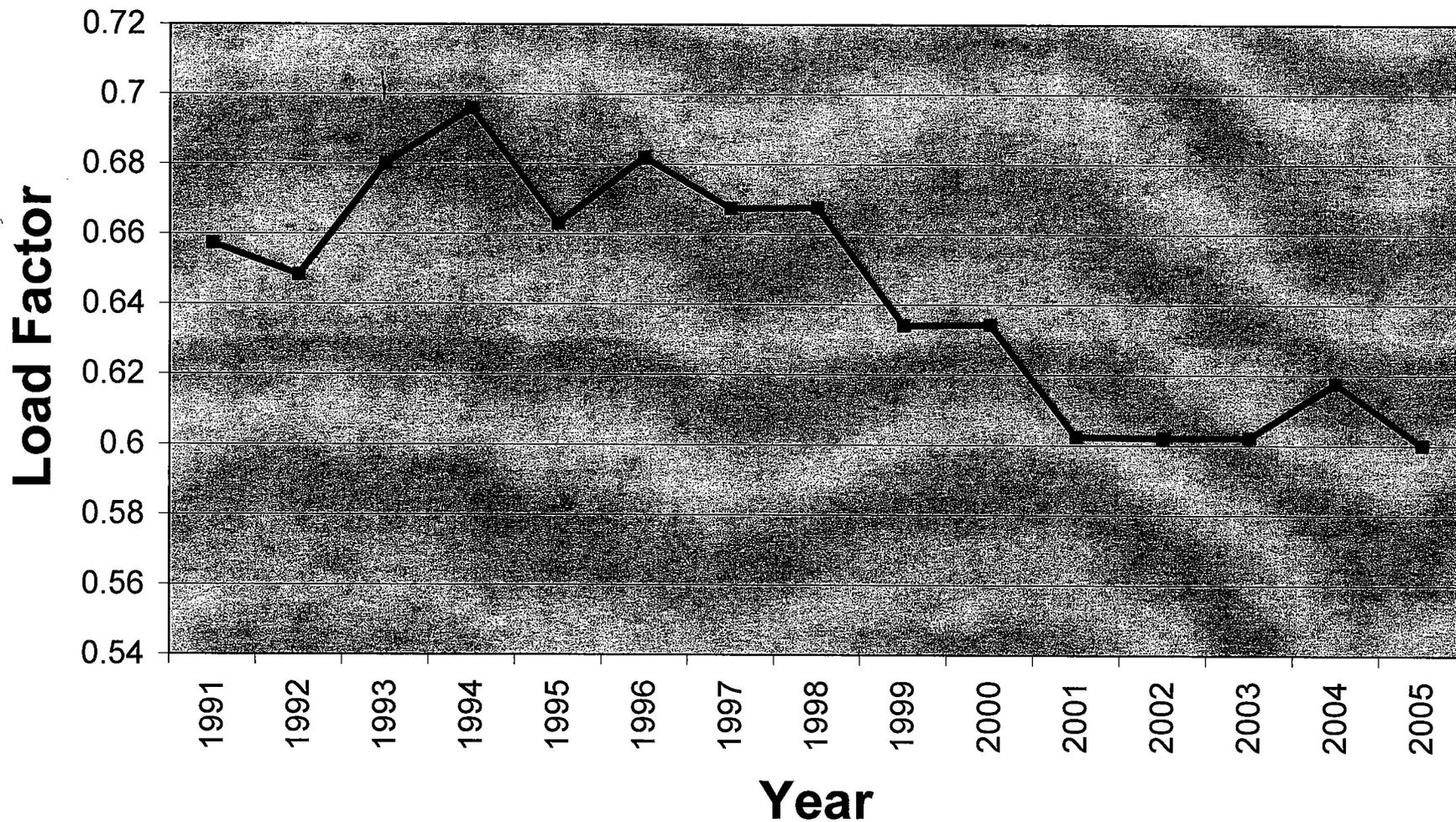
BHP Monthly Peak Loads - 1991 thru 2005



BHP Monthly Energy - 1991 thru 2005

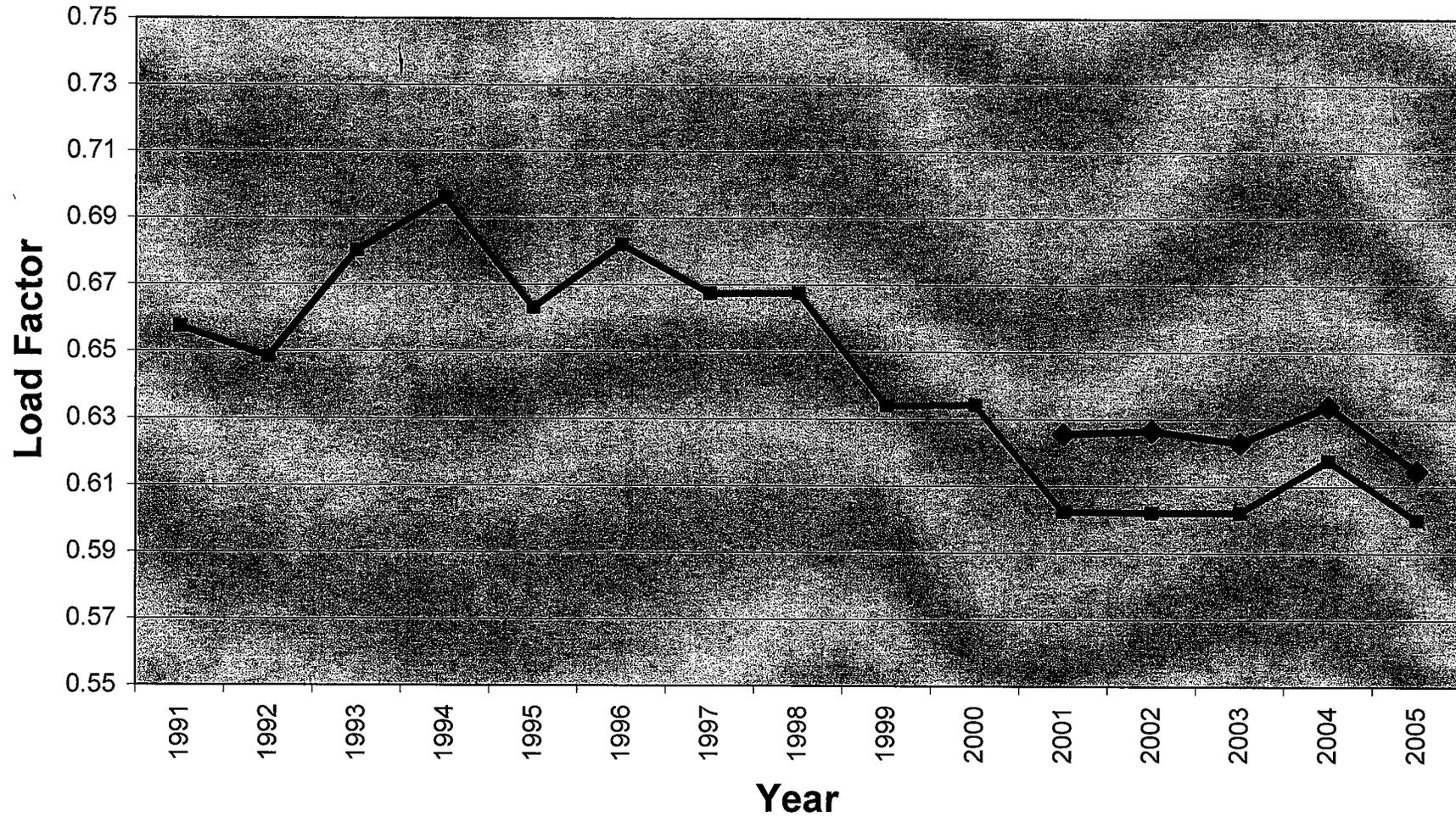


BHP Annual Load Factors

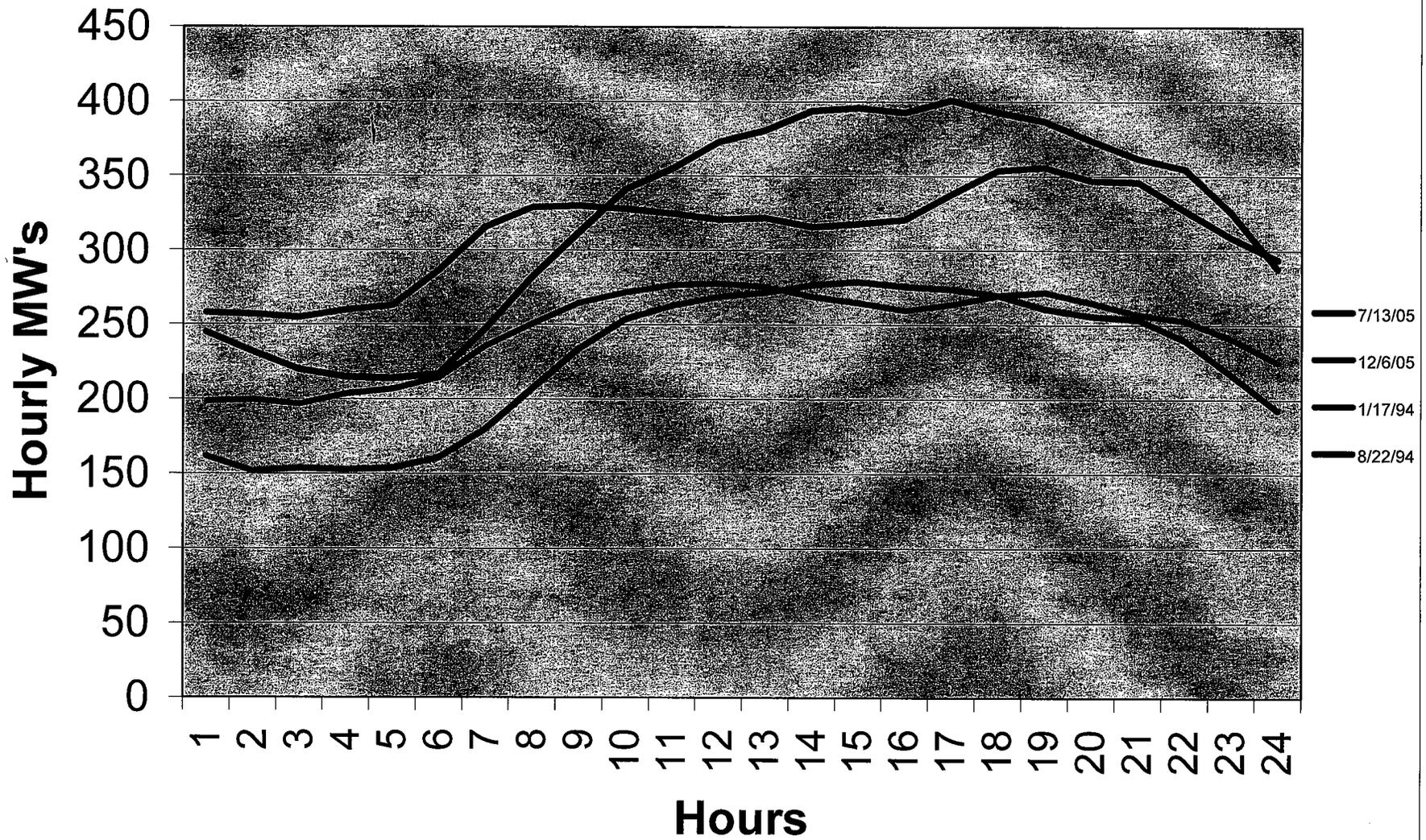


BHP Annual Load Factors

—■— Load Factor —◆— With Mean



BHP Summer and Winter Peak Days



Calculation for Capacity Allocation Factors Using 1 CP

Jurisdictional Allocations

Date	HE	BHP	SD	WY	MT	Gillette	System
1/13/2005	18	291	247.62	18.51	1.86	23.00	339
2/7/2005	19	272	227.49	19.34	2.17	23.00	316
3/14/2005	10	252	207.87	18.67	2.45	23.00	290
4/21/2005	11	243	201.62	16.89	1.49	23.00	279
5/11/2005	21	254	210.41	18.24	2.35	23.00	287
6/22/2005	14	331	286.68	19.63	1.69	23.00	375
7/13/2005	17	345	301.57	18.85	1.58	23.00	401
8/8/2005	15	345	299.33	20.70	1.97	23.00	394
9/8/2005	16	299	253.32	20.30	2.38	23.00	340
10/4/2005	19	254	209.44	19.06	2.50	23.00	290
11/28/2005	18	290	244.27	20.54	2.19	23.00	334
12/6/2005	19	307	261.34	20.17	2.49	23.00	356

1 CP		345.0	301.57	18.85	1.58	23.00
Jul	Alloc Factor		87.41%	5.46%	0.46%	6.67%



June 27, 2006

Mr. Marvin D. Truhe
Attorney at Law
P.O. Box 8112
Rapid City, SD 57709

Subject: Black Hills Power, Inc. Rate Case Application

Dear Mr. Truhe:

At your request, we have reviewed the Jurisdictional Allocation and South Dakota Customer Class Cost of Service (COS) Study set forth in Statement N, Schedule N-1, Statement O, and Schedule O-1 of the Master Rate Filing Statement. You requested that we look at both per books and adjusted allocations. Since, from an allocation perspective the two are the same, in the following, the observations apply equally well to both.

Jurisdictional COS Allocations

Jurisdictional allocations are set forth in Statement N and Schedule N-1 in the Excel file titled Master Rate Filing Statement.xls. In our review, we did not verify the bases of some of the quantities directly input in the worksheet. Many of the line items are referenced to Statements and Schedules included in the workbook. We find that the totals agree between the various Statements and Schedules. These references provide a link between the various schedules that specific items are based on. We did verify that total system capacity and energy tie to amounts reported in 2005 FERC Form 1. We did not identify any calculation or cell reference errors in the worksheets we reviewed, though we did not attempt to verify each.

Based on our review of the information provided, we note that Black Hills Power, Inc. (BHP) generally follows what we consider standard practice for allocating costs. In this regard, we focus on the following cost of service items that, in our experience, represent areas where issues are most likely raised.

- BHP uses a supervised expense allocation basis (allocation base 28) for most general plant accounts.
- BHP allocates working capital on a variety of bases depending on the working capital element.
- BHP allocates property insurance on the basis of total plant. BHP allocates boiler maintenance on the basis of energy.
- BHP allocates other steam maintenance expenses on the basis of peak demand.
- BHP uses a customer-based allocation for customer accounts and customer service and information costs.
- BHP uses jurisdictional coincident demands at the time of the system peak to allocate capacity related costs to jurisdictions.

Mr. Marvin D. Truhe

June 27, 2006

South Dakota Customer Class COS Allocations

We have reviewed the South Dakota Adjusted Rate Class (COS) Model set forth in Statement O and Schedule O-1 of the South Dakota rate filing information. We also examined the rate class energy estimated loss report, Workpaper WP-1 and South Dakota Rate Class Load Factors and Average and Excess Demand determinations, Workpaper WP-2. At your request, we also assessed the reasonableness of the proposed across-the-board increase for all rate classes relative to COS results.

South Dakota customer rate classes are the same customer classes defined in the previous rate case COS. The defined rate classes include service provided under various rate schedules that reflect different characters of service. For example, the Residential Class includes customers served under Regular Service, Total Electric, Demand Service, and Utility Controlled rate schedules. The Small General Service Class includes customers served under General Service, Total Electric, Energy Storage, Utility Controlled, Irrigation Pumping, and Municipal Pumping rate schedules. BHP does not have load research data to determine the contribution to Rate Class peak demand for the rate classes for each of the rate schedules included in the classes, consequently, customer class load factors are estimated based on available monthly customer meter information.

The annual non-coincident customer class load factors used in WP-2 appear reasonable based on the supporting monthly customer meter information. To test the reasonableness of these Class Load Factors, we independently estimated Customer Class Load Factors based on the monthly customer meter information. For customers that have only monthly energy metering, we estimated monthly coincident peak demands recognizing both reasonable monthly load factors and class coincidence at peak. The resulting class annual coincident peak demands are calculated to check the reasonableness of Class Load Factors used in the COS. For customers that are demand and energy metered, we estimated monthly billing demands adjusted for power factor (when billed on a kVA basis) and coincidence to check the reasonableness of Class Load Factors. We find the Customer Class Load Factors used in the COS study to be reasonable estimates for the allocation methodology considering that BHP does not have specific load research information for the defined customer classes.

As you may know, we generally prefer using an average-and-excess demand (AED) allocation approach to allocate the system capacity related cost of service items to customer classes. AED methodology recognizes both the class average demand (class total annual energy divided by 8,760 annual hours). This average demand represents the capacity required to serve that class if all customers had 100 percent load factor non-coincident maximum demand. We believe that methodologies that focus on a single or full coincident demand do not adequately recognize the customer class average demand requirements, particularly for daily off-peak and/or off-peak seasonal classes. With no specific load research information, we generally use AED methodology to allocate a reasonable portion of cost responsibility based on limited load information.

The energy loss factors used in WP-1 for Customer Classes reflect service voltage level and appear reasonable in light of total BHP energy losses for the Test Year. The loss factors recognize reasonable allowances for losses associated with transmission and distribution primary and secondary service levels. Estimated loss factors reflect similar relationships of service levels from the previous rate case. These loss factors appear in line with average service level loss factors used by other electric utilities.

Mr. Marvin D. Truhe

June 27, 2006

Overall, the COS results for the five cost of service classes supports the proposed across-the-board class rate adjustments. Given the lack of specific load research information, combining rate classes suggests the proposed across-the-board adjustment is a reasonable approach.

In conclusion, while we tend to structure class cost of service studies differently, we believe BHP class COS results generally fall in line with results we would reach if we developed such a study independently.

We will be pleased to discuss the foregoing at your convenience.

Very truly yours,

BLACK & VEATCH CORPORATION



Larry W. Loos
Director, Enterprise Management Solutions

jdh

Black Hills Power, Inc.

Sensitivity Analysis

South Dakota - Class Cost of Service Study

Exhibit
DJM - 8

Changes in % Rate Increase By Changing Residential & Small General Service Load Factors

	Residential Load Factor	Residential	Small General Service	Large General Service	Industrial Contract	Lighting
	45%	14.43%	12.68%	13.40%	18.19%	9.88%
-5%	40%	18.19%	9.81%	11.43%	17.38%	8.46%
5%	50%	11.07%	15.25%	15.14%	18.92%	11.14%
	Small Gen Svc Load Factor	Residential	Small General Service	Large General Service	Industrial Contract	Lighting
	35%	14.43%	12.68%	13.40%	18.19%	9.88%
-5%	30%	11.49%	18.33%	10.72%	17.09%	7.95%
5%	40%	16.99%	7.78%	15.71%	19.16%	11.55%
Residential Small Gen Svc	40% 30%	15.13%	15.38%	9.03%	16.40%	6.74%
Residential Small Gen Svc	50% 40%	13.53%	10.27%	17.69%	20.00%	12.99%
Range:						
	Minimum	11.07%	7.78%	9.03%	16.40%	6.74%
	Maximum	18.19%	18.33%	17.69%	20.00%	12.99%
	Δ:	7.12%	10.55%	8.66%	3.60%	6.25%

Black Hills Power, Inc.

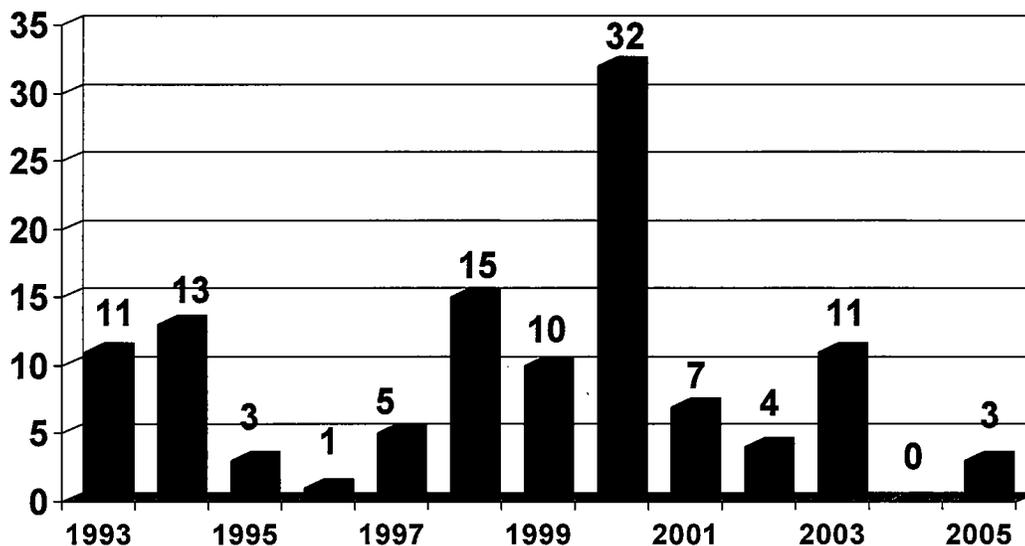
Large Demand Curtailable (LDC) Service

Total Savings

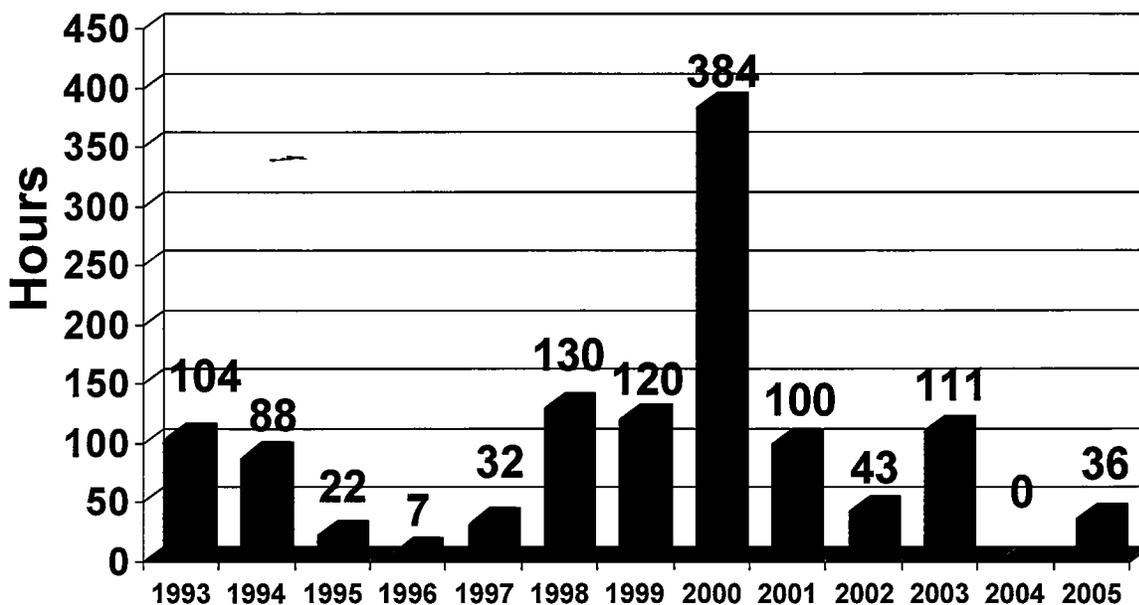
Year	Annual (kWh)	Peak (kVA)	Electric Bill w/o S. Tax	Avg. Cost (\$/kWh)	LDC Savings		Curtailed Load (kVA)
					w/S. Tax	Percent	
2005	25,647,312	4,837.9	\$1,196,545.02	4.67	\$172,427.21	12.2%	2,873
2004	25,028,384	4,682.1	\$1,173,455.60	4.69	\$169,344.15	12.2%	2,717
2003	26,109,432	5,039.6	\$1,222,082.85	4.68	\$180,006.71	12.4%	3,075
2002	27,238,136	5,027.7	\$1,256,435.97	4.61	\$176,066.53	11.9%	3,063
2001	28,680,288	5,049.4	\$1,301,296.16	4.54	\$209,862.14	13.4%	3,084
2000	28,905,392	5,264.4	\$1,298,462.74	4.49	\$234,805.78	14.8%	3,299
1999	28,496,864	5,311.8	\$1,298,447.01	4.56	\$234,256.01	14.8%	3,347
1998	27,534,512	5,011.7	\$1,247,826.81	4.53	\$219,483.52	14.5%	3,047
1997	27,461,844	5,233.6	\$1,261,009.00	4.59	\$208,351.02	13.7%	3,269
1996	20,694,760	3,026.0	\$928,421.53	4.49	\$163,214.42	14.5%	2,703
1995	19,033,410	3,022.9	\$835,640.52	4.39	\$129,795.85	13.0%	2,249
1994	18,827,200	2,792.5	\$836,369.21	4.44	\$125,793.68	12.6%	1,984
1993	18,443,840	2,727.8	\$779,328.09	4.23	\$89,916.10	10.0%	1,923
	322,101,374		\$14,635,320.51	4.54	\$2,313,323.12	13.2%	

Black Hills Power, Inc Large Demand Curtailable Service

Number of Curtailments



Hours of Curtailment



Black Hills Power, Inc.
South Dakota Bill Frequency, Test Year Ended December 2005
PECIAL EVENTS SERVICE

Exhibit
DJM-10

	BILLING DETERMINANTS	PROPOSED RATES	PROPOSED REVENUE	NEW PROPOSED RATES	NEW PROPOSED REVENUE	% INCREASE
Small General Service GS-14						
Customer Charge	430 Bills	\$11.00	\$4,730			
Energy Charge						
1st 1,000	149,503 kWh	\$0.0946	\$14,143			
Next 2,000	123,613 kWh	\$0.0819	\$10,124			
Next 12,000	220,167 kWh	\$0.0720	\$15,852			
Additional	14,760 kWh	\$0.0590	\$871			
Sub-Total:	508,043 kWh		\$40,990			
Demand Charge						
5 kW:	882.2 kW	\$0.00	\$0			
Next 45 kW:	2,570.6 kW	\$5.50	\$14,138			
Additional kW:	1,768.6 kW	\$5.15	\$9,108			
Sub-Total:	5,221.4 kW		\$23,246			
Total:	508,043 kWh		\$68,966			
Special Events Service						
Customer Charge	430 Bills			\$12.50	\$5,375	13.6%
Energy Charge						
June, July, & August:	419,687 kWh			\$0.1200	\$50,362	
Other Months:	88,356 kWh			\$0.1000	\$8,836	
	508,043 kWh				\$59,198	114.9%
Demand Charge						
June, July, & August:	4,430.4 kW			\$15.00	\$66,456	105.4%
				Total:	\$131,029	90.0%
				Δ:	\$62,063	