

**BLACK HILLS POWER, INC.**  
**Computation of Federal Income Tax**  
**For the Test Year Ended December 31, 2005**

Statement K  
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Line No.	Description	Reference	Per Books	Proforma Adjustments	Adjusted Total	Additional Revenue Required	Claimed Rate of Return
1	Operating Income Before						
	Federal Income Taxes	Statement M	\$36,168,064	(\$4,537,240)	\$31,630,824	\$15,058,705	\$46,689,529
2	Less Interest Expense	Stmt K, p.2	12,649,175	(335,776)	12,313,399		12,313,399
3	Subtotal		23,518,889	(4,201,463)	19,317,425	15,058,705	34,376,130
<b>Tax Adjustments - Permanent Differences</b>							
4	Fines & Penalties		10		10		10
5	Meals & Entertainment		44,000		44,000		44,000
6	Officer Restricted Stock		(5,380)		(5,380)		(5,380)
7	Equity AFUDC		(38,863)		(38,863)		(38,863)
8	PEP Life - Cash Surrender Value		(171,979)		(171,979)		(171,979)
9	Officer Life Insurance		(26,690)		(26,690)		(26,690)
10	RAR 79-84		(2,835)		(2,835)		(2,835)
11	Total Permanent Differences		(201,737)	-	(201,737)	-	(201,737)
<b>Tax Adjustments - Temporary Differences</b>							
12	Employee Group Insurance		(23,425)		(23,425)		(23,425)
13	Pension		1,220,598		1,220,598		1,220,598
14	PEP Plan		51,659		51,659		51,659
15	Performance Plan Bonus		10,881		10,881		10,881
16	Retiree Healthcare		846,746		846,746		846,746
17	Pension Supplement (SERP)		2,604		2,604		2,604
18	Vacation		66,934		66,934		66,934
19	Derivatives		121,298		121,298		121,298
20	Derivatives - Interest Swap		64,331		64,331		64,331
21	Results Compensation/Bonus		466,571		466,571		466,571
22	Line Extension Deposits		1,005,799		1,005,799		1,005,799
23	Officer Restricted Stock		18,769		18,769		18,769
24	Pollution Control Bonds		208,692		208,692		208,692
25	Reacquired Bond Loss		185,133		185,133		185,133
26	Self Insurance		(135,000)		(135,000)		(135,000)
27	Workmans Compensation		(38,874)		(38,874)		(38,874)
28	Contributions in Aid of Construction		769,938		769,938		769,938
29	Cost of Removal		(527,141)		(527,141)		(527,141)
30	Depreciation		(3,966,686)		(3,966,686)		(3,966,686)
31	Property Amortization		65,844		65,844		65,844
32	Prepaid Expenses		(105,328)		(105,328)		(105,328)
33	Bad Debt Reserve		(81,447)		(81,447)		(81,447)
34	Total Timing Differences		227,896	-	227,896	-	227,896
35	Taxable Income		23,545,048	(4,201,463)	19,343,584	15,058,705	34,402,289
36	Current Federal Income Tax @ 35%		8,240,767	(1,470,512)	6,770,254	5,270,547	12,040,801
37	Tax Return True Up to Current Income Taxes		(43,313)		(43,313)		(43,313)
38	Reserve Adjustment		32,007		32,007		32,007
39	Deferred Income Tax		(79,764)	-	(79,764)	-	(79,764)
40	Tax Return True Up to Deferred Taxes		(123,440)				-
41	FAS 109 True Up to Deferred Taxes		(1,946,678)				-
42	Investment Tax Credit Amortization		(260,327)		(260,327)		(260,327)
43	Excess Deferred Tax Amortization		(148,188)		(148,188)		(148,188)
44	Current Income Tax on Nonoperating Income		84,821		84,821		84,821
45	Total Federal Income Tax		\$5,755,886	(\$1,470,512)	\$6,355,491	\$5,270,547	\$11,626,038

**Tax Savings Due to Consolidation**

There will be no tax savings as a result of filing a consolidated tax return for the test year ended December 31, 2005.

**Abnormalities for Test Period**

None.

**BLACK HILLS POWER, INC.**  
**Interest Expense - Annualization Adjustment**  
**For the Test Year Ended December 31, 2005**

Statement K  
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Line No.	Description	AMOUNT
1	Total Rate Base - Adjusted Total Statement M	\$ 356,837,826
2	Weighted Debt Cost - Schedule G pg1	<u>3.45%</u>
3	Adjusted Interest Expense	<u>\$ 12,313,399</u>

**BLACK HILLS POWER, INC.**  
**Reconciliation of Book Net Income with Taxable Income**

Schedule K-1  
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Line No.	Description	2001	2002	2003	2004
1	Net Income Per Books	\$45,238,407	\$30,216,556	\$24,089,285	\$19,208,760
2	Income Taxes	24,255,460	15,067,372	11,625,980	9,469,404
3	Fines & Penalties	6,638	19	-	-
4	Meals & Entertainment	107,196	50,142	41,515	43,942
5	Officer Restricted Stock	-	-	-	(532)
6	Lobbying	58,024	-	-	-
7	Equity AFUDC	(403,100)	(571,542)	(44,249)	(94,433)
8	PEP Life - Cash Surrender Value	(211,316)	(161,925)	(165,018)	(166,409)
9	Officer Life Insurance	(23,909)	(26,304)	(26,571)	(26,136)
10	RAR 79-84	(15,097)	(16,178)	(14,974)	(2,752)
11	Spousal Travel	5,000	-	-	-
12	Employee Group Insurance	-	-	40,000	-
13	Pension	(1,898,099)	(315,962)	(4,839,493)	1,406,645
14	PEP Plan	(545,705)	(1,508,506)	53,178	52,052
15	Non-Qualified Deferred Compensation	177,848	(267,113)	-	-
16	Performance Plan Bonus	-	-	-	4,712
17	Retiree Healthcare	373,864	335,671	656,422	869,003
18	Pension Supplement (SERP)	(13,521)	(139,717)	29,815	17,615
19	Vacation	39,583	(237,500)	31,667	(10,233)
20	Derivatives	-	-	-	(121,297)
21	Derivatives - Interest Swap	-	(1,812,013)	64,331	64,331
22	25 Share Stock Grant	-	147,501	(147,501)	-
23	Results Compensation/Bonus	78,979	(86,986)	117,918	(134,758)
24	Purchased Power Accrual	(227,740)	-	-	-
25	Line Extension Deposits	106,409	323,994	375,062	68,044
26	Officer Restricted Stock	-	-	8,833	5,905
27	Reacquired Bond Loss	32,788	32,788	32,788	(2,817,355)
28	Self Insurance	400,000	450,000	(700,000)	(200,000)
29	Contributions Carryover	893,293	31,420	(924,713)	-
30	Workmans Compensation	12,842	(241,653)	(14,585)	8,366
31	Contributions in Aid of Construction	418,555	605,213	382,060	366,786
32	Cost of Removal	(354,366)	(420,890)	(760,030)	(352,208)
33	Depreciation & Amortization	(7,583,301)	(9,755,988)	(15,880,748)	(10,451,178)
34	Simplified Service Cost	(17,050,620)	435,480	125,994	284,294
35	Prepaid Expenses	-	-	-	(443,743)
36	Bad Debt Reserve	440,304	14,068	16,737	13,157
37	Book/Tax Gain Difference	(223,372)	(127,130)	(273,053)	(301,424)
38		<u>\$44,095,044</u>	<u>\$32,020,817</u>	<u>\$13,900,650</u>	<u>\$16,760,558</u>

**BLACK HILLS POWER, INC.**  
**Differences in Book and Tax Depreciation**  
**For the Year Ending December 31, 2004**

**Schedule K-2**  
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Line No.	Description	Amount
1	Declining Balance	\$ 44,299
2	Straight Line	706,553
3	ACRS	740
4	MACRS Straight Line	394,086
5	MACRS	<u>28,178,875</u>
6	Tax Depreciation	29,324,553
7	Book Depreciation	<u>18,873,375</u>
8	Excess Tax Over Book Depreciation	<u><u>\$ 10,451,178</u></u>

**BLACK HILLS POWER, INC.**  
**Tax Allocation**  
**For the Year Ended December 31, 2004**

Line No.	Companies Included in Consolidated Tax Return	Taxable Income	NOL	Adjusted Taxable Income	Tax Rate	Income Tax Before Credits	Credits			Income Tax
							Foreign Tax	R & D	Enhanced Oil Recovery	
1	Black Hills Power, Inc.	\$16,760,558		\$16,760,558	34%	\$5,698,590				\$5,698,590
2	Black Hills Corporation	(3,243,493)		(3,243,493)	34%	(1,102,788)		(1,742)		(1,104,530)
3	Black Hills Energy, Inc.	423,196		423,196	34%	143,887				143,887
4	Wyodak Resources Development Corp.	7,980,316		7,980,316	34%	2,713,307				2,713,307
5	Landrica Development Company	67,486		67,486	34%	22,945				22,945
6	Enserco Energy, Inc.	14,161,072		14,161,072	34%	4,814,764	(331,387)			4,483,377
7	Black Hills Fiber Systems, Inc.	(8,848,262)		(8,848,262)	34%	(3,008,409)				(3,008,409)
8	Black Hills Energy Resources, Inc.	6,021,762		6,021,762	34%	2,047,399				2,047,399
9	Black Hills Millenium Pipeline, Inc.	57,334		57,334	34%	19,494				19,494
10	Black Hills Millenium Terminal, Inc.	787		787	34%	268				268
11	Black Hills Kilgore Pipeline, Inc.	2,431		2,431	34%	827				827
12	Daksoft, Inc.	749,496		749,496	34%	254,829				254,829
13	Black Hills Exploration & Production, Inc.	(1,509,079)		(1,509,079)	34%	(513,087)			(170,958)	(684,045)
14	Black Hills Gas Resources, Inc.	(28,657,907)	(14,998,364)	(43,656,271)	34%	(14,843,132)				(14,843,132)
15	Black Hills Gas Holdings Corp.	0		0	34%	0				0
16	Black Hills Wyoming, Inc.	22,319,994		22,319,994	34%	7,588,798				7,588,798
17	Black Hills Generation, Inc.	(10,990,630)		(10,990,630)	34%	(3,736,814)				(3,736,814)
18	Adirondack Hydro Development Corporation	0		0	34%	0				0
19	EIF Investors, Inc.	5,225,101		5,225,101	34%	1,776,534				1,776,534
20	Black Hills Valmont Colorado, Inc.	0		0	34%	0				0
21	Bloomfield Idaho Management, Inc.	0		0	34%	0				0
22	Bloomfield Rupert, Inc.	0		0	34%	0				0
23	Bloomfield Glenss Ferry, Inc.	0		0	34%	0				0
24	Subtotal	20,520,162	(14,998,364)	5,521,798		1,877,411	(331,387)	(1,742)	(170,958)	1,373,324
25	Eliminations	(3,830,812)		(3,830,812)	34%	(1,302,476)				(1,302,476)
26	Total	\$16,689,350	(\$14,998,364)	\$1,690,986		\$574,935	(\$331,387)	(\$1,742)	(\$170,958)	\$70,848

**Details of Consolidating Adjustments**

Eliminations of \$3,830,812 relate to Black Hills Generation Companies.

**Tax Savings Due to Consolidation**

There will be no tax savings as a result of filing a consolidated tax return for the test year ended December 31, 2005.

**BLACK HILLS POWER, INC.**  
**Current Income Tax**  
**For the Test Year Ended December 31, 2005**

**Schedule K-4**  
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As shown in Statement K, page 1, current Federal income tax per books is calculated on a separate return basis at the statutory rate of 35%.

**BLACK HILLS POWER, INC.**  
**State Income Taxes**  
**For the Test Year Ended December 31, 2005**

**Schedule K-5**  
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Line		
No.	State	<u>Amount</u>
1	Montana	(\$12,903) Calculated Refund
2		
3	Wyoming	N/A
4		
5	South Dakota	N/A
6		
7	Nebraska	N/A