

**SERVICE AGREEMENT
(Utility)**

This Service Agreement (the “**Agreement**”) is made effective the 1st day of August, 2009 (Effective Date), by and between Black Hills Power, Inc. (“**Client**”) and Black Hills Utility Holdings, Inc. (“**BHUH**”).

WITNESSETH

WHEREAS, BHUH was formed on June 9, 2008 and became operational on July 14, 2008.

WHEREAS, BHUH operates as a centralized service company under the Energy Policy Act of 2005 (the “**Act**”) and the Public Utility Holding Company Act of 2005 (“**PUHCA 2005**”), pursuant to Order Nos. 667 and 667-A of the Federal Energy Regulatory Commission (“**FERC**”).

WHEREAS, BHUH is a subsidiary of Black Hills Corporation (“**Black Hills**”) and Client is a utility operating company and an affiliate of BHUH.

WHEREAS, BHUH and Client have entered into this Agreement whereby BHUH agrees to provide and Client agrees to accept and pay for various services as provided herein at cost, and pursuant to Black Hills Utility Holdings, Inc. Cost Allocation Manual, with cost determined in accordance with applicable rules and regulations under the Act, which require BHUH to fairly and equitably allocate costs among all associate companies to which it renders services, including Client.

NOW THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties to this Agreement covenant and agree as follows:

**ARTICLE 1
SERVICES**

Section 1.1 BHUH shall furnish to Client, as requested by Client, upon the terms and conditions hereinafter set forth, such of the services described in the Black Hills Utility Holdings, Inc. Cost Allocation Manual (“**CAM**”), at such times, for such periods and in such manner as Client may from time to time request and that BHUH concludes it is able to perform. BHUH shall also provide Client with such special services, in addition to those services described in the CAM, as may be requested by Client and that BHUH concludes it is able to perform. BHUH shall use its best efforts to maintain a staff trained and experienced in the design, construction, operation, maintenance, and management of public utility properties, and shall keep itself and its personnel available to provide services to Client so long as it is authorized to do so by the appropriate federal and state regulatory agencies. In supplying such services, BHUH may arrange, where it deems appropriate, for the services of such experts, consultants, advisers, and other persons with necessary qualifications as are required for or pertinent to the provision of such services.

Section 1.2 Client shall take from BHUH such of the services described in Section 1.1 and such additional general or special services, whether or not now contemplated as are requested from time to time by Client and that BHUH concludes it is able to perform.

Section 1.3 The services described herein or contemplated to be performed hereunder shall be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. Client shall have the right from time to time to amend, alter or rescind any activity, project, program or work order provided that (i) any such amendment or alteration that results in a material change in the scope of the services to be performed or equipment to be provided is agreed to by BHUH, (ii) the cost for the services covered by the activity, project, program or work order shall include any expense incurred by BHUH as a direct result of such amendment, alteration or rescission of the activity, project program or work order, and (iii) no amendment, alteration or rescission of any activity, project, program or work order shall release Client from liability for all costs already incurred by or contracted for by BHUH pursuant to the activity, project, program or work order, regardless of whether the services associated with such costs have been completed.

ARTICLE 2 COMPENSATION

Section 2.1 As compensation for the services to be rendered hereunder, Client shall pay to BHUH all costs which reasonably can be identified and related to particular services performed by BHUH for or on Client's behalf. The methods for assigning or allocating BHUH costs to Client, as well as to other associate companies, are set forth in the CAM.

Section 2.2 The methods of assignment, distribution or allocation of costs described in the CAM shall be subject to review annually, or more frequently if appropriate. Such methods of assignment, distribution or allocation of costs may be modified or changed by BHUH.

Section 2.3 BHUH shall render a monthly statement to Client that shall reflect the billing information necessary to identify the costs charged for that month. By the twentieth (20th) day of each month, Client shall remit to BHUH all charges billed to it.

Section 2.4 It is the intent of this Agreement that the payment for services rendered by BHUH to Client under this Agreement shall cover all the costs of BHUH doing business (less the costs of services provided to affiliated companies not a party to this Agreement and to other non-affiliated companies, and credits for any miscellaneous items), including, but not limited to, salaries and wages, office supplies and expenses, outside services employed in rendering the services hereunder, property insurance, injuries and damages, employee pensions and benefits, miscellaneous general expenses, rents, maintenance of structures and equipment, depreciation and amortization, and compensation for use of capital as permitted under the Act.

ARTICLE 3 TERM

Section 3.1 This Agreement shall become effective on the Effective Date and shall continue in force until terminated by BHUH or Client, upon not less than one year's prior written notice to the other party. This Agreement shall also be subject to termination or modification at

any time, without notice, if and to the extent performance under this Agreement may conflict with the Act or with any rule, regulation or order of the FERC adopted before or after the date of this Agreement.

**ARTICLE 4
LIMITATION OF LIABILITY AND INDEMNIFICATION**

Section 4.1 In performing the services hereunder, BHUH will exercise due care to assure that the services are performed in an appropriate manner, meet the standards and specifications set forth in any applicable request for service and comply with the applicable standards of law and regulation. However, failure to meet these obligations shall in no event subject BHUH to any claims by or liabilities to Client other than to reperform the services and be reimbursed at cost for such reperformance. BHUH makes no other warranty with respect to its performance of the services, and Client agrees to accept such services without further warranty of any nature.

Section 4.2 To the fullest extent allowed by law, Client shall and does hereby indemnify and agree to save harmless and defend BHUH, its agents and employees from liabilities, taxes, losses, obligations, claims, damages, penalties, causes of action, suits, costs and expenses or judgments of any nature, on account of, or resulting from the performance and prosecution of any services performed on behalf of Client pursuant to this Agreement, whether or not the same results or allegedly results from the claimed or actual negligence or breach of warranty of, or willful misconduct by, BHUH or any of its employees, agents, clients, or contractors or its or their subcontractors or any combination thereof.

**ARTICLE 5
MISCELLANEOUS**

Section 5.1 All accounts and records of BHUH shall be kept in accordance with the Uniform System of Accounts for Centralized Service Companies promulgated by the FERC.

Section 5.2 New direct or indirect non-utility subsidiaries of Black Hills, which may come into existence after the Effective Date of this Agreement, may become additional clients of BHUH and subject to a service agreement with BHUH, or an existing client may wish to obtain additional services from BHUH. Likewise, an existing direct or indirect subsidiary of Black Hills may cease to be a client or cease to take individual services from BHUH. In either event, the parties hereto shall make such changes in the scope and character of the services to be rendered and in the method of assigning, distributing or allocating costs of such services as specified in the CAM, as may become necessary to achieve a fair and equitable assignment, distribution, or allocation of BHUH costs among all associate companies.

Section 5.3 In the event Client changes the scope of services that it takes from BHUH (as provided in Section 1.2 and subject to Section 1.3) or terminates this Agreement (pursuant to Section 3.1), BHUH may bill such Client a charge that reflects a proportionate share of any significant residual fixed costs (i.e. incurred costs or commitments to incur costs) that were incurred or committed to incur in contemplation of providing such Client service prior to the

notice of termination. Examples of fixed costs include, but are not limited to, costs to upgrade computer hardware and software systems to meet Client's specifications.

Section 5.4 BHUH shall permit Client access to its accounts and records, including the basis and computation of allocations; provided that the scope of access and inspection is limited to accounts and records that are related to BHUH's transactions with Client.


Section 5.5 It is the intent of the parties hereto that the determination of the costs as used in this Agreement shall be consistent with, and in compliance with, the rules and regulations of the FERC, as they are now read or hereafter may be modified by the FERC.

Section 5.6 This Agreement and the rights hereunder may not be assigned without the mutual written consent of all parties hereto.


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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date and year first above written.

BLACK HILLS UTILITY HOLDINGS, INC.

By: 
Name: Steven J. Helmers
Title: Sr. Vice President & General Counsel

BLACK HILLS POWER, INC.

By: 
Name: Linden R. Evans
Title: President & Chief Operating Officer