

COAL SUPPLY AGREEMENT

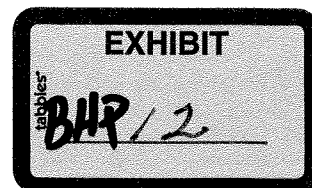
Dated September 23, 2009

between

WYODAK RESOURCES DEVELOPMENT
CORPORATION

and

BLACK HILLS POWER, INC.



COAL SUPPLY AGREEMENT

This COAL SUPPLY AGREEMENT (this "Agreement"), dated as of September 23, 2009, is entered into by and between Wyodak Resources Development Corp., a Delaware corporation ("Seller"), and Black Hills Power, Inc., a South Dakota corporation ("Buyer").

WHEREAS, Seller mines coal at a coal mine consisting of the existing Wyodak Mine (the "Mine") in Campbell County, Wyoming, pursuant to coal leases and coal properties containing certain coal reserves (collectively, the "Coal Reserves");

WHEREAS, Buyer, along with Montana-Dakota Utilities Co. ("MDU"), is constructing certain improvements, which will consist of a coal-fired steam electric generating facility having an anticipated name-plate rating of 100 megawatts, known as Wygen III (the "Facility"), located adjacent to the Coal Reserves. Buyer owns an undivided 75% ownership interest in the Facility (the "Ownership Share");

WHEREAS, MDU owns an undivided 25% ownership interest in the Facility and Seller and MDU have entered into a Coal Supply Agreement dated April 9, 2009 (the "MDU Coal Supply Agreement") providing for Seller to sell and deliver and MDU to accept and buy coal from the Coal Reserves sufficient to meet all of MDU's coal requirements for its ownership share of the Facility; and

WHEREAS, the parties intend that Seller, pursuant to this Agreement, will deliver all of Buyer's coal requirements for the Facility during the Term of this Agreement, as defined below;

NOW, THEREFORE, Seller agrees to sell and deliver and Buyer agrees to accept and buy coal, as hereinafter provided, upon the following terms and conditions:

SECTION 1. TERM OF AGREEMENT.

The term of this Agreement (the "Term") shall commence on the date hereof, and shall continue through June 1, 2060 for the Facility as currently permitted and designed. To the extent there are design or permit changes related to the Facility, or changes in regulatory requirements related to the Facility, which in either case or together materially increase the estimated maximum amount of coal to be delivered during the Term pursuant to this Agreement, the parties shall, acting reasonably, agree to a modification of the Term.

SECTION 2. REPRESENTATIONS OF SELLER.

The source of the coal to be sold and purchased shall be the Coal Reserves. Seller represents and warrants to Buyer that:

(a) The Coal Reserves contained approximately 274 million tons of mineable coal as of December 31st, 2008. Seller has and will maintain uncommitted Coal Reserves in an amount sufficient to deliver coal in compliance with the quality specifications set forth in Section 5 for the entire Term of this Agreement to fulfill the requirements of the Facility as currently permitted and designed.

(b) Seller agrees and warrants that it will have at the Mine adequate machinery, equipment and other facilities to produce, prepare and deliver coal in the quantity and of the quality required by this Agreement. Seller further agrees to operate and maintain such machinery, equipment and facilities in accordance with good mining practice so as to produce, prepare and deliver such coal from the Coal Reserves. For purposes of this Agreement, "good mining practice" means, at any particular time, any of the practices, methods and acts (including the then current practices, methods and acts with respect to the mining and operation of coal mines engaged in or approved by a significant portion of the coal mining industry) which, in the exercise of reasonable judgment in light of the facts known at the time a decision was made, would have been reasonably expected to accomplish the desired result at a reasonable cost consistent with reliability and safety. Good mining practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts. Good mining practice also includes those practices, methods, and acts that are required by applicable laws, orders, and permits.

(c) Seller owns, leases or controls the Coal Reserves, and will continue to own, lease or control the Coal Reserves during the Term of this Agreement. Seller has obtained and will use commercially reasonable efforts to maintain in full force and effect all licenses, permits and other authorizations from governmental authorities necessary for it to perform its obligations under this Agreement and will perform such obligations in compliance with all governmental regulations and good mining practice. Seller's title to the coal delivered to Buyer hereunder shall be good and merchantable and its transfer lawful; such coal shall be free and clear of any lien or encumbrance created, or permitted to be created, by Seller; and Seller agrees to indemnify and hold Buyer free and harmless from any costs and expenses that Buyer might incur as a result of any such lien or encumbrance.

SECTION 3. QUANTITIES OF COAL TO BE SOLD AND PURCHASED;
REPLACEMENT COAL.

(a) Seller agrees to sell and Buyer agrees to buy all of the coal which is necessary to fuel Buyer's Ownership Share of the Facility during the Term. Buyer may at any time increase or decrease the amount of the coal to be delivered to the Facility at a rate necessary to properly fuel its Ownership Share of the Facility; provided, however, that it is specifically understood and agreed that Buyer is not obligated to purchase any coal from Seller to the extent Buyer does not fully utilize its Ownership Share of the Facility for any reason, including, without limitation, due to planned or unplanned outages of the Facility or temporary or permanent removal of the Facility from service. Without limiting Seller's obligations herein, it is estimated that the maximum annual coal consumption of the Facility is 585,000 tons of coal, which Seller hereby agrees to dedicate to the Facility. Seller shall use commercially reasonable efforts to maintain, as an average over each year during the Term, a quantity of uncovered coal at the Mine reasonably expected to be sufficient to meet Seller's obligations to Buyer, BHP and all other third parties to which Seller is obligated to deliver coal from the Mine during the then succeeding four-month period.

(b) On or before the 15th of each month, Buyer shall provide Seller with a written non-binding rolling forecast of estimated quantities of coal required by Buyer under this Agreement for the following three months. For example, on or before January 15, Buyer shall

provide such a forecast for the months of February, March, and April, and on or before February 15, Buyer shall provide such a forecast for the months of March, April, and May.

(c) Seller shall notify Buyer promptly of any inability of Seller to deliver (or to make available for delivery) at the Points of Delivery all the coal necessary to fuel the Facility in accordance with the quality and other terms of this Agreement. Such notice shall describe the reasons for such inability, the extent to which such inability is due to uncontrollable forces (as defined in Section 12), and the reasonably expected duration of such inability. In such event, Buyer may, at its option, purchase coal necessary to fuel its Ownership Share of the Facility from such alternative sources as Buyer may select in its sole discretion (such coal, the "Replacement Coal"). To the extent such failure to deliver (or to make available for delivery) is not the result of an uncontrollable force (as defined in Section 12), Seller shall reimburse Buyer for the difference between (i) the costs incurred by Buyer in connection with the purchase of such Replacement Coal (which shall include, without limitation, costs of arranging for the purchase, and the transporting and handling, of the Replacement Coal, and other costs associated with Buyer's use at the Facility of such Replacement Coal), provided that Buyer agrees to use commercially reasonable efforts to minimize such costs and limit the term of such arrangements to the expected duration of Seller's inability to deliver (or to make available for delivery) coal for the Facility, and (ii) any costs that would have been otherwise incurred in connection with the purchase, receipt and handling of coal delivered by Seller pursuant to the terms of this Agreement but were not incurred due to Buyer's purchase and use of such Replacement Coal. Seller may, at its sole cost and expense, audit invoices reflecting the costs incurred by Buyer in connection with the purchase of Replacement Coal and Buyer agrees to make available for review by Seller upon Seller's request such invoices and reasonable supporting documentation.

(d) Upon becoming able to resume deliveries in accordance with the quality and other terms of this Agreement, Seller shall provide written notice thereof to Buyer. Buyer shall be excused for any failure to take and purchase quantities of coal after receipt of such notice to the extent resulting from Buyer's obligations under agreements for purchase or transportation of Replacement Coal Buyer entered into pursuant to Section 3(c).

SECTION 4. PLACE OF DELIVERY AND SALE.

Delivery shall be made to Buyer at the diverter gates on the bottom of Seller's coal silos from which the Buyer takes the coal for use at the Facility (the "Points of Delivery"). Title to the coal delivered by Seller in fulfillment of its obligations under this Agreement, and all risk of loss thereupon, shall pass to Buyer at the Points of Delivery. The Points of Delivery may be changed from time to time by mutual agreement of the parties, acting reasonably. Buyer agrees not to utilize any coal delivered hereunder to Buyer anywhere other than at the Facility, unless Seller agrees otherwise.

SECTION 5. QUALITY OF COAL.

The coal furnished hereunder shall be raw, run-of-mine coal and substantially free of magnetic material and other foreign material impurities including, but not limited to, mining debris, bone, slate, scrapped iron, steel, petroleum coke, earth, rock, pyrite, wood and blasting

wire. The quality of coal delivered hereunder shall be determined from the coal samples taken pursuant to Section 7.

Seller intends to segregate Upper Seam Coal and Lower Seam Coal (as defined below) made available for delivery at the Delivery Points into separate silos. The Buyer shall direct the blending of Lower Seam Coal and Upper Seam Coal when taking delivery of coal, may take delivery of Lower Seam Coal as required to meet applicable permit requirements, and shall utilize Upper Seam Coal as much as possible.

For the purposes of this Agreement, "Lower Seam Coal" shall be defined as coal mined from the bottom 35% of the minable Coal Reserves, having a sulfur content between .20 and .55 percent. "Upper Seam Coal" shall be defined as coal mined from the upper 65% of the minable Coal Reserves, having a sulfur content of between .55 and 1.0 percent.

Seller warrants that the coal made available in the segregated coal silos at the Points of Delivery will be in such quantities and have such characteristics that the Buyer may select for delivery a mixture of coal that has the following characteristics in the ranges as set forth below:

Coal Size—raw, pit run coal nominally sized to two-inch minus

Proximate Analysis

As Received Range (raw)

Moisture (%)	24.00 to 34.00
Ash (%)	4.00 to 10.20*
Volatile Matter (%)	28.09 to 36.99
Fixed Carbon (%)	29.45 to 37.40
BTU per pound (as received)	7,600 to 8,400 (Typical: 8000)
BTU per pound (MAF)	11,100 to 12,250

Ultimate Analysis

Carbon (%)	46.07 to 52.38
Hydrogen (%)	3.04 to 3.50
Nitrogen (%)	0.50 to 0.80
Chlorine (%)	0.00 to 0.03
Sulfur (%)	0.20 to 0.80 (Typical: 0.60)
lbs.SO ₂ /MMBTU	0.5lbs to 2.50 (Typical: 1.50)
Ash (%)	4.00 to 10.20*
Oxygen (diff) (%)	11.02 to 12.54
Moisture (%)	24.00 to 34.00

Sulfur Forms

* The upper end of this range will be evaluated on an average calendar monthly basis, such that it will be deemed satisfied if the average ash percentage of the coal delivered under this Agreement in any calendar month during the Term is 10.2% or less.

* The upper end of this range will be evaluated on an average calendar monthly basis, such that it will be deemed satisfied if the average ash percentage of the coal delivered under this Agreement in any calendar month during the Term is 10.2% or less.

Pyritic Sulfur (%)	0.01 to 0.63
Sulfate Sulfur (%)	0.00 to 0.02
Organic Sulfur (%)	0.14 to 1.34

<u>Fusion Temp. of Ash (degrees F)</u>	<u>Reducing</u>	<u>Oxidizing</u>
Initial Deformation	2,101/2,310	2,180/2,390
Softening (H=W)	2,160/2,400	2,180/2,430
Hemispherical (H=1/2W)	2,170/2,415	2,205/2,500
Fluid	2,185/2,560	2,215/2,630

Fouling and Slagging Indices

Base/Acid Ratio	
Water Soluble Na2O (%)	0.04 to 0.22

<u>Hardgrove Grindability Index</u>	50 to 65
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Trace Metal Analysis (ug/g)

Antimony	0.88 to 1.12
Arsenic	1.76 to 3.00
Barium	200 to 450
Beryllium	0 to 0.64
Boron	32 to 89
Cadmium	0.16 to 0.24
Chromium	2.2 to 11.0
Copper	5.6 to 19.0
Cobalt	2 to 6
Chloride	0 to 100
Fluoride	45 to 105
Lead	3.2 to 6.8
Manganese	9 to 30
Mercury	0.05 to 0.25
Nickel	4 to 10
Selenium	0.8 to 1.6
Vanadium	7 to 29
Zinc	7.8 to 18.2

Notwithstanding the foregoing, if the Facility experiences significant performance or handling difficulties arising from use of coal meeting the quality specifications set forth in this Section 5, the parties shall cooperate in good faith to resolve such difficulties. At Buyer's cost, Seller shall (i) take all reasonable steps to meet any revised quality parameters mutually agreed upon and (ii) promptly implement any other mutually accepted solution or partial solution to such difficulties.

If at any time, (i) the coal made available for delivery at the Points of Delivery is not in sufficient quantities or of sufficient quality such that it is possible to achieve a blend of such coal that would meet the quality specifications set forth in this Section 5 and (ii) the Buyer elects to take delivery of and use such non-conforming coal, Buyer shall be entitled to credit against amounts owed to Seller under this Agreement an amount equal to all costs incurred by Buyer which

would not have been incurred if the coal delivered had met the specifications set forth in this Section 5.

SECTION 6. WEIGHING.

The weights of the coal delivered to Buyer shall be determined from weights taken by the Buyer on scales located at the Facility, or at such other places as the parties hereto and the Buyer may agree. The aggregate weights of such delivered coal shall be accepted as the quantity of coal delivered for which invoices are to be rendered and payments to be made.

The percent weighted average of Lower Seam Coal and Upper Seam Coal will be determined based on a totalized value calculated by the Buyer's control system.

SECTION 7. SAMPLING AND ANALYSIS.

(a) Separate analyses of calorific value, ash, sulfur, moisture and, if requested by the Buyer, ash softening temperature, shall be made by Seller, or at its direction, for each day's loading of Lower Seam Coal and Upper Seam Coal into the segregated coal silos. Analysis shall be performed in accordance with the latest methods approved by the American Society for Testing and Materials (ASTM) or such other methods as the parties may agree upon. Samples shall be taken by Seller on a regular basis in accordance with ASTM standards utilizing sampling equipment provided by Seller. Results of the analysis of each sample shall be provided to the Buyer promptly upon conclusion of the analysis.

(b) Buyer shall have the right to have a representative present to observe the sampling and analyses performed pursuant to this Section 7, and to collect samples when sampling is being performed pursuant to this Section 7.

(c) By notice to Seller, Buyer shall have the right to have Seller cause the coal to be sampled and analyzed, at Buyer's cost, by a commercial testing laboratory agreed to by Seller, acting reasonably. The results of such sampling and analyses of such commercial testing laboratory shall be accepted as the quality and characteristics of the coal so sampled and analyzed.

SECTION 8. REPORT OF MONTHLY WEIGHTED AVERAGE COAL QUALITY.

Within two business days after the end of each month, an analysis of the weighted average of calorific value, ash, sulfur, moisture and, if requested by the Buyer, ash softening temperature of coal delivered hereunder during such month, shall be made or caused to be made by Seller using the daily coal delivered weight readings taken from the coal scales, the control system weighted averages pursuant to Section 6, and the daily coal samples taken pursuant to Section 7(a) or Section 7(c), as the case may be. Seller shall provide the results of each such computation to the Buyer within five business days after the end of each month. For the purposes of this Agreement, a "business day" shall be defined as Monday through Friday, with the exception of federal holidays.

SECTION 9. PURCHASE PRICE.

The Purchase Price to be paid by Buyer to Seller for each ton of coal delivered under this Agreement shall be in accordance with Statement R Pricing methodology, as defined herein, based upon the pro-rata tons sold under this Agreement as compared to all tons delivered by Seller from the Mine to Buyer and any third party on an annual basis.

"Statement R Pricing" means the annual pricing for Buyer's share of coal procured from the Mine that allows Seller to earn an after-tax rate of return on its actual average per ton cost for such coal that is equal to the yield for Moody's A-Rated 10-Year Utility Bond Index (or, in the event such index no longer exists, a similar substitute index agreed upon by the parties, acting reasonably) during the calendar year for which the calculation is being made, plus 400 basis points. Applicable costs for the purposes of computing the actual average per ton cost (i) include direct mining costs, mobile equipment costs, overburden expense, processing costs (for on-site sales), other mining expenses, administration and employment costs, government impositions, employee fringe benefit costs, depreciation, depletion, and any other cost related to the mining operations of Seller to furnish coal pursuant to this Agreement, but (ii) do not include costs related to Seller's train load-out facility.

For illustrative purposes, an example and summary explanation of the calculation of the price to be paid by Buyer under Statement R Pricing is set forth on Exhibit A, attached hereto.

SECTION 10. INVOICES AND PAYMENTS.

Seller shall invoice Buyer for deliveries of coal in any month by delivering a hard copy invoice to Buyer by the fifth business day of the following month. The invoice price shall be based upon Statement R Pricing determined according to Seller's operations for the prior calendar year.

It is understood that some of the actual costs included in the Statement R Pricing calculation upon which the Purchase Price is based may not be known or determinable on the date billings are made for the coal for which such costs are incurred. Retroactive adjustments and appropriate billings and credit statements shall be made at such time that such costs become known and determinable, which is expected to occur by January 15th for the preceding calendar year. Seller may adjust an invoice only within three years following the invoice date.

Buyer shall pay the undisputed portion of each invoice to Seller by the 20th day after Seller's receipt of the invoice. In the event Buyer fails to pay the undisputed portion of any invoice when due, or in the event Seller fails to issue an undisputed credit to Buyer in a timely manner, then Buyer or Seller, as the case may be, shall pay interest on the undisputed amount until paid/credited at an annual interest rate equal to the LIBOR three-month rate published on that date in *The Wall Street Journal* (or, if *The Wall Street Journal* is not published on that date, the next date of publication, or, if such rate is not published in *The Wall Street Journal*, such rate as published in a respected daily financial periodical, or such replacement rate, agreed upon by the Owners, acting reasonably), plus 400 basis points.

The payment of any disputed portion of any invoice, or the issuance of any disputed credit, shall include interest from the initial payment or credit due date at an annual interest rate equal to the LIBOR three-month rate published on that date in *The Wall Street Journal* (or, if *The Wall Street Journal* is not published on that date, the next date of publication, or, if such rate is not published in *The Wall Street Journal*, such rate as published in a respected daily financial periodical, or such replacement rate, agreed upon by the Owners, acting reasonably).

SECTION 11. NO RESTRICTION ON COAL RESERVES.

Except to the extent dedicated to fulfill the requirements of the Facility as provided herein, this Agreement shall not restrict Seller from mining, selling, using, committing, dedicating, mortgaging or encumbering in any manner the Coal Reserves for any purpose; provided, however, that no such sale, use, commitment, dedication, mortgage or encumbrance shall relieve, be construed to relieve, or operate as a defense to relieve Seller of its obligations hereunder.

SECTION 12. UNCONTROLLABLE FORCE.

The term "uncontrollable force" as used herein shall mean any cause beyond the control of the party affected, including, but not limited to, failure of facilities, flood, earthquake, storm, fire, lightning, epidemic, war, riot, civil disturbance, labor disturbance, sabotage or terrorist act, and restraint by court order or public authority, which by exercise of due foresight such party could not reasonably have been expected to avoid, and which by exercise of due diligence it shall be unable to overcome. In addition to other uncontrollable forces described herein, it shall be considered an uncontrollable force and shall relieve Seller from performing its obligations under this Agreement to the extent that an applicable law or regulation limits or prohibits the strip mining of coal at the Mine.

If, because of uncontrollable force, either party hereto is unable to carry out any part or all of its obligations under this Agreement (other than an obligation to make any payment hereunder), then the obligations of such party shall be suspended to the extent made necessary by such uncontrollable force and during its continuance, provided that:

- (1) the non-performing party gives the other party prompt written notice describing the particulars of the occurrence of the uncontrollable force;
- (2) the suspension of performance is of no greater scope and of no longer duration than is required by the uncontrollable force;
- (3) the non-performing party proceeds with reasonable diligence to remedy its inability to perform and provides weekly progress reports to the other party describing actions taken to end the uncontrollable force; and
- (4) when the non-performing party is able to resume performance of its obligations under this Agreement, that party shall give the other party written notice to that effect.

SECTION 13. NO SPECIAL OR INDIRECT DAMAGES.

Notwithstanding anything to the contrary herein, neither party will be liable to the other party for consequential, special, exemplary, or indirect damages, including loss of profit, cost of capital, loss of goodwill, loss of revenues from the sale of capacity or energy, or increased operating costs (except as provided in Sections 3 and 5 of this Agreement), irrespective of whether such damages were reasonably foreseeable or caused by the negligence of any party.

SECTION 14. BUYER'S RIGHTS OF INSPECTION.

(a) Seller shall maintain and retain accurate records relating to deliveries of coal under this Agreement in accordance with industry practice. Seller shall make such records available to Buyer, its accountants, auditors or other authorized representatives, who shall be given access to and be permitted to examine such records at reasonable times and with reasonable prior notice. If an audit determines that any payments made under this Agreement in the three years immediately preceding the audit were not properly calculated, adjustments shall be promptly made in amounts to be paid in the future for deliveries under this Agreement to reflect the proper amounts of such adjustments; or if no future payments are then due, payments shall be promptly made by Seller or Buyer, as the case may be, to reflect the difference between the previous payments and the proper amounts determined by the audit.

(b) Buyer or its representatives shall have the right to enter the Mine, but only with Seller's consent (not to be unreasonably withheld), under Seller's supervision, and at Buyer's sole risk and expense, for the each of the following purposes: (i) to inspect and examine the method and manner of, and equipment used in, mining, producing, storing, loading, unloading, transporting, sampling, weighing, analyzing or other handling of coal to be supplied under this Agreement; or (ii) in connection with any accounting, audit or examination of Seller's records.

(c) Notwithstanding anything to the contrary herein, Buyer shall have no right to examine or inspect any confidential or proprietary information of Seller or any intellectual property of Seller.

SECTION 15. NOTICES.

Unless otherwise expressly provided herein, all notices required to be given by the provisions of this Agreement shall be effective upon receipt (or refusal of delivery) if given in writing sent by United States mail (postage prepaid), by a reputable courier service (with tracking services), or by telecopy (receipt confirmed) to the addresses set forth below:

If to Seller: Wyodak Resources Development Corp.
Attn: President
350 Indiana Street, Suite 400
Golden, CO 80401
Fax No.: (303) 568-3261

With a copy to: Black Hills Corporation
Attn: General Counsel
P.O. Box 1400
625 Ninth Street
Rapid City, SD 57709
Fax No.: (605) 721-2550

If to Buyer: Black Hills Power, Inc.
Attn: Vice President – Electric Utilities
409 Deadwood Avenue
Rapid City, SD 57701
Phone: 605-721-2222
Fax: 605-721-2735

With a copy to: Black Hills Corporation
Attn: General Counsel
P.O. Box 1400
625 Ninth Street
Rapid City, SD 57709
Fax No.: (605) 721-2550

Any party may, by written notice to the other party as provided above, at any time and from time to time change its address and/or its designation of the person to whom notice will be given on its behalf.

SECTION 16. APPLICABLE LAW.

This Agreement is subject to the applicable laws of the state of Wyoming, without regard to conflicts of law principles.

SECTION 17. AMENDMENT.

No provision of this Agreement may be amended, modified, supplemented or waived except by an instrument in writing signed by Seller and Buyer.

SECTION 18. SUCCESSORS AND ASSIGNS.

(a) This Agreement and all the terms and provisions hereof shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto.

(b) Except as otherwise provided in this Section 18(b), this Agreement and any interests, rights or obligations under this Agreement may not be assigned by any party without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. If Buyer sells, transfers, assigns, conveys, or otherwise disposes of all or any portion of its Ownership Share of the Facility to a third party, then Buyer will simultaneously assign a corresponding share of its interests, rights, and obligations under this Agreement to such third

party, and Buyer will, and will cause the third party to, execute and deliver such documents as Seller may reasonably request to confirm such assignment.

SECTION 19. EXECUTION AND DELIVERY

This Agreement may be executed by the parties on separate counterparts, each of which when so executed will be an original, but which together shall constitute but one and the same instrument. This Agreement may be delivered by the facsimile or other electronic transmission of signed signature pages.

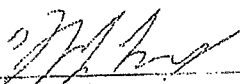
SECTION 20. COMPLETE AGREEMENT.

This Agreement constitutes the complete agreement of the parties with respect to the supply of coal to the Facility.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers thereunto duly authorized as of the date first above written.

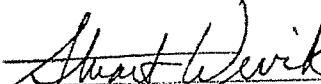
Wyodak Resources Development Corp.



Name: Mark Lux

Title: Vice President

Black Hills Power, Inc.



Name: Stuart Wevik

Title: Vice President - Electric Utilities

Exhibit A

Statement R Pricing

Summary Explanation of the Calculation of Statement R

Overall description:

Statement R pricing is a methodology to determine coal pricing for regulated electricity customers that are served by Black Hills Power, Inc. in South Dakota. The reference of "Statement R" is from prior regulatory filings to the South Dakota PUC, which designation as Statement R was internally made by BHP in submitted comprehensive rate cases.

Outlined below are the general steps performed to determine the final annual sales value per ton for sales to BHC's regulated subsidiaries. The normal accounting closing processes during each year involve estimating the per ton sales amount during the operating period based on the mine's operating budget, and then as part of the year-end closing process, the actual sales value is determined based on actual annual expenses. At year end, true-up adjustments for coal sales are made to the year's estimated monthly billings and an adjusted final billing is forwarded to the regulated subsidiaries.

References below are to the worksheet tabs in the file "Statement R through 12.31.07 Dec 31 2007 as of 1-9-08 b.xls", as support in explaining the principal steps in determining the final annual sales value per ton for regulated coal ton sales.

Principal steps to determine annual sales value per ton for regulated coal ton sales:

Determine asset investment for regulated coal sales tons

A. Coal sales by ton are identified by type of customer/contract (Lines 1, 2, 4, 5, 7, 8, and 10, Part III).

B. Key base percentages for usage in determining the costs attributable to coal sales made to regulated entities are determined (Part III):

- "Percent Applicable to Mining" - percent of coal sales to regulated entities, of the mine's total coal sales (line 6).
- "Percent Applicable to Processing Blending Facility" - percent of coal sales to regulated entities that use the mine's coal Blending Facility assets, of the total tons that are processed through the Blending Facility (line 9).
- "Percent Applicable to Processing" - percent of coal sales to regulated entities, of the mine's total coal sales, less tons sold through the train load out assets (coal tons sold through the train load out facility are not "processed" by the mine) (line 11).

C. The original costs, accumulated depreciation, and depreciation expense for the combined Mining/Processing asset category are prorated among the Mining, Blending Facility, and Processing asset categories based on an allocation methodology that weighs all tons to the Mining category, weighs to the Processing category based on total coal tons, less tons sold to the Wyodak plant, and weighs to the Blending Facility based on tons sold to customers for which blending services were performed compared to total sold tons (Schedule B).

D. The mine's A&G costs are allocated among the Mining, Blending Facility, and Processing asset categories based on the same allocation methodology used to allocate original costs, accumulated depreciation, and depreciation expense for the Mining/Processing asset category (Schedule B).

E. The carried balances for original asset costs (Cost), accumulated depreciation (Reserve for Depreciation), depreciation expense, and operating expense of the Mining, Blending Facility, and Processing asset categories and the allocated Mining/Processing original asset costs, accumulated depreciation, depreciation expense, and operating expense derived per C. and D. are accumulated by category (Schedule B).

F. The accumulated original asset costs and accumulated depreciation for the Mining, Blending Facility, and Processing asset categories are multiplied by the base percentages derived per B. to determine the net PPE balances by category (Part I).

G. The portion of the Materials, Supplies, and Prepayments asset balance to be applied to the regulated coal customers is calculated by multiplying the percent of mining costs attributable to the regulated coal customers, as derived in B., by the total asset balance (Part I).

H. The total asset investment related to the regulated coal customers results from accumulating the totals per F. and G. (Part I).

Targeted rate of return

I. The targeted rate of return, as allocated based on the coal tons sold to BHP/CLFP, is derived by adding 400 Basis Points to the Utility A-rated Bonds rate (Part V); the rate of return is described as the Utility Type Rate of Return Related to Sales to BHP/CLFP on Part II, line 23.

J. The targeted net income for regulated sales is derived by applying the Utility Type Rate of Return Related to Sales to BHP/CLFP (Part V), per I. above, to the total asset investment related to the regulated coal customers per H.; this amount is shown in the "Applicable Sales to BHP/CLFP" column on line 18, Part II.

Year-end revenue and expense adjustments to meet targeted return

K. The mine's Operating Expenses related to BHP/CLFP sales are determined in two basic methodologies:

1. Costs that are based on the percentages of regulated customer coal tons to total tons according to the specific allocation methodologies, as outlined in E., are applied against the mine's operating expense accumulations (Mining Expenses (line 3), Blending Facility Expenses (8), Processing Expenses (9), Depreciation and Depletion of Mining Plant (10), Depreciation - Blending Facility (11), Depreciation - Processing Plant (12), Federal Reclamation, FICA, and Unemployment (14), and Property Taxes (15)).

2. Costs that are based on the specific value of coal ton sales to BHP/CLFP are determined through a manual iteration adjusting process described below (Royalties, Production Tax, Severance Tax, and Black Lung Tax).

L. A series of manually estimated adjustments to the regulated sales amounts and the reciprocal adjustments to the operating expenses that are determined from related sales amounts (Royalties, Production Tax, Severance Tax, and Black Lung Tax) are made in the "Input" supporting worksheet that eventually drive the results of operations for the regulated sales to equal the targeted net income as determined per J. The iterative- determined amounts for final revenue, and the operating expenses that are determined from related sales amounts, are entered in column (2) in Part II.

M. The final proof that the final resultant revenue total for regulated sales, less the iterative-generated operating expenses, the allocated operating expenses, and allocated income taxes, equals the targeted net income as determined per J. above is entered in the "Adjusted" column per Part II.

Final sales value per ton for annual regulated coal ton sales

N. When the regulated net income totals per J. and M. are equal, the final sales value per ton is determined by dividing the adjusted final regulated revenue total by the actual regulated tons sold (Part VI).

Statement R - Part I
Wyodak Resources Development Corporation
Computation of Utility Type Investment Base
for Total Sales to Black Hills Power
for the 12 Months ended December 31, 2007

Line No.	(1) Total Company	(2) Applicable Sales to BHP/CLFP
1	Gross Mining Plant (from Schedule B) \$ 53,593,315	
2	Accumulated Provision for Depreciation, Depletion and Amortization -- Mining Plant (from Schedule B) <u>27,643,798</u>	
3	Net Mining Plant (Line 1 less Line 2) \$ 25,949,517	\$ 7,582,449 (a)
4	Blending Facility (from Schedule B) 5,911,887	
5	Accumulated Provision for Depreciation (from Schedule B) <u>5,136,063</u>	
6	Blending Facility (Line 4 less Line 5) 775,824	639,434 (b)
7	Processing Plant (from Schedule B) 15,040,235	
8	Accumulated Provision for Depreciation (from Schedule B) <u>6,039,578</u>	
9	Net Processing Plant (Line 7 less Line 8) 9,000,657	3,517,457 (c)
10	Mining Investment for BHP/CLFP Sales* 425,000	
11	Accumulated Provision for Depreciation* <u>425,000</u>	
12	Net Investment for Sales to BHP/CLFP (Line 10 less Line 11) -	-
13	Net Mining and Processing Plant (Sum Lines 3, 6, 9, 12) 35,725,998	11,739,340
14	Unamortized Stripping Costs* -	- (a)
15	Materials, Supplies and Prepayments* <u>7,950,900</u>	<u>2,323,253 (a)</u>
16	Total Utility Type Investment Base (Sum Lines 13, 14, 15) <u>\$ 43,676,898</u>	<u>\$ 14,062,593</u>

- (a) Percent Applicable to Mining (Part III, Line 6) 29.22%
- (b) Percent Applicable to Blending Facility (Part III, Line 9) 82.42%
- (c) Percent Applicable to Processing (Part III, Line 11) 39.08%
- * from Input page

Statement R - Part II
Wyodak Resources Development Corporation
Computation of Utility Type Investment Base
for Total Sales to Black Hills Power
for the 12 Months ended December 31, 2007

Line No.	(1) Total Company	(2) Applicable Sales to BHP/CLFP	(3) Adjusted
1	Receipts from Coal Sales*		
2	<u>Operating Expenses:</u>		
3	Mining Expenses (from Schedule B)	12,856,032	3,756,533 (a) 3,756,533
4	Royalties*	5,222,795	1,645,863 (e) 1,645,863
5	Production Tax*	2,232,431	723,530 (e) 723,530
6	Severance Tax*	2,623,002	850,114 (e) 850,114
7	Black Lung Tax*	1,759,204	554,379 (e) 554,379
8	Blending Facility Expenses (from Schedule B)	668,862	551,276 (b) 551,276
9	Processing Expenses (from Schedule B)	2,646,522	1,034,261 (e) 1,034,261
10	Depreciation and Depletion of Mining Plant (from Schedule B)	3,490,435	1,019,905 (a) 1,019,905
11	Depreciation -- Blending Facility (from Schedule B)	102,838	84,759 (b) 84,759
12	Depreciation -- Processing Plant (from Schedule B)	790,355	308,871 (e) 308,871
13	Depreciation -- Investment for BHP/CLFP Sale*	-	-
14	Federal Reclamation, FICA, and Unemployment	2,178,940	636,686 (a) 636,686
15	<u>Property Taxes:</u>		
	Mining	242,033	70,722 (a) 70,722
	Blending Facility	36,419	30,017 (b) 30,017
	Processing	92,653	36,209 (c) 36,209
	Investment for BHP/CLFP Sale	2,618	2,618
	Total Operating Expenses (before Taxes)	34,945,139	11,305,744
16	Federal Income Tax (from Schedule A)	1,645,506	433,786 (d) 433,855
17	Total Operating Expenses	36,590,645	11,739,530
18	Net Mining Income	5,897,046	1,414,470
19	Other non-mining income (net)	1,547,369	
20	Less: Interest on Long-term Debt*	-	
21	Net Income	<u>\$ 7,444,415</u>	
22	Utility Type Investment Base Applicable to Sales to BHP/CLFP (from Part I)	14,062,593	14,062,593
23	Utility Type Rate of Return Related to Sales to BHP/CLFP	10.06%	10.06%
(a)	Percent Applicable to Mining (Part III, Line 6)		29.22%
(b)	Percent Applicable to Blending Facility (Part III, Line 9)		82.42%
(c)	Percent Applicable to Processing (Part III, Line 11)		39.08%
(d)	Amount Applicable to BHP/CLFP (Part IV, Line 11)	433,786	
(e)	Coal taxes calculated based on applicable sales to those subsidiaries		

Note: An "*" designates the column 1 amount comes from the Input page

Statement R - Part III
Wyodak Resources Development Corporation
Computation of Utility Type Investment Base
for Total Sales to Black Hills Power
for the 12 Months ended December 31, 2007

Line No.		
1	Total Coal Sold	5,049,266
2	Total Coal Sold - Wyodak Plant	<u>2,068,501</u>
3	Total Coal Sold - All Except Wyodak	2,980,765
4	Total Tons Sold - BHP/CLFP Wyodak	410,016
5	Total Coal Sold - BHP/CLFP Other Plants	1,065,496
6	Percent Applicable to Mining ((Line 4+Line 5)/Line 1)	29.22%
7	Total Coal Sold - BHP/CLFP by Blending Facility	555,649
8	Other Coal Sold by Blending Facility	118,544
9	Percent Applicable to Processing Blending Facility (Line 7/(Line 7+Line 8))	82.42%
10	Total Coal Sold - Train Load Out	1,273,397
11	Percent Applicable to Processing (Line 4+Line 5)/(Line 1-Line 10)	39.08%

Statement R - Part IV
Wyodak Resources Development Corporation
Computation of Utility Type Investment Base
for Total Sales to Black Hills Power
for the 12 Months ended December 31, 2007

Line No.		
<u>1</u>	Total Federal Income Tax Applicable to Mining Income (from Schedule A)	\$ 1,645,506
2	Income before Federal Income Tax:	
3	Net Income	5,365,596
4	Plus Federal Income Tax	<u>1,645,506</u>
5	Mining Income Before Federal Income Tax	7,011,102
<hr/>		
6	Unadjusted Receipts from Coal Sales (from Part II)	13,154,000
7	Total Operating Expenses (from Part II)	<u>11,305,744</u>
9	Income before Federal Income Tax Applicable to BHP/CLFP	1,848,256
10	Federal Income Tax Rate (Line 4/Line 5)	<u>23.47%</u>
11	Federal Income Tax	<u><u>\$ 433,786</u></u>

Statement R - Part IV (b)
Wyodak Resources Development Corporation
Income Tax Estimate

	<u>Amount</u>
Revenues*	\$ (474,070)
Severance Tax (from Schedule C)	(22,596)
Production Tax (from Schedule C)	(28,870)
Royalty Tax (from Schedule C)	(58,686)
Black Lung Tax (from Schedule C)	<u>(19,981)</u>
Pre Tax Impact	(343,937)
Income Taxes (from Schedule A) 23.47%	<u>(80,722)</u>
Net income impact	<u><u>\$ (263,215)</u></u>

*From Input Page

Statement R - Part V
Wyodak Resources Development Corporation
Computation of Utility Type Investment Base
for Total Sales to Black Hills Power
for the 12 Months ended December 31, 2007

<u>Return on Equity</u>	<u>Percentage</u>
Utility A-rated Bonds	6.06%
Plus 400 Basis Points	4.00%
Return on Equity	<u>10.06%</u>

Statement R - Part VI
Wyodak Resources Development Corporation
Computation of Utility Type Investment Base
for Total Sales to Black Hills Power
for the 12 Months ended December 31, 2007

~~Price per ton required to balance Affiliate Coal Adjustment to approximately \$0.00~~

<u>Line No.</u>	<u>Amount</u>
1 Coal Receipts from BHP/CLFP (from Input page)	\$ 13,154,000
2 Coal Receipts from BHP/CLFP as Adjusted (from Part II)	<u>\$ 13,154,296</u>
3 Difference in Coal Receipts BHP/CLFP (Line 1 - Line 2)	(296)
4 Annual Retail Energy Sales in South Dakota - MWH	1
5 Annual Total Energy Sales - MWH	1
6 Percent Applicable to South Dakota (Line 4/Line 5)	100.00%
7 Affiliate Coal Adjustment (Line 3 x Line 6)	<u>\$ (296)</u>

Statement R - Schedule A
Wyodak Resources Development Corporation
Allocation of Federal Income Tax to Operating Income and Non-Operating Income

Line No.		Amount
1	Mining Income before Federal Income Tax*	\$ 7,011,102
2	Non-Operating Income before Federal Income Tax*	2,021,444
3	Tax Exempt Interest and Dividends:	
	Tax Exempt -- Non AMT*	-
	Tax Exempt -- AMT*	-
	Preferred Dividends Percentage and Amount 70% _____	-
	Total	-
4	Non-Operating Income Excluding Tax Exempt Interest and Dividends (Line 2 less Line 3)	2,021,444
5	Income Subject to Federal Income Tax (Line 1 plus Line 4)	9,032,546
6	Federal Income Tax*	2,119,581
7	Federal Income Tax as a Percentage of Income (Line 6 / Line 5)	23.47%
8	Federal Income Tax Applicable to Mining income (Line 7 x Line 1)	\$ 1,645,506

*Amounts come from the Input page.

Statement R - Schedule B
Wyodak Resources Development Corporation
Computation of Utility Type Investment Base
for Total Sales to Black Hills Power
for the 12 Months ended December 31, 2007

<u>Blending Facility</u>	<u>Amount</u>	<u>Mining/Processing</u>	<u>Allocation of A&G Expenses</u>	<u>Total</u>
Cost	\$ 5,511,933	\$ 399,954		\$ 5,911,887
Reserve for Depreciation	4,919,573	216,490		5,136,063
Depreciation Expense	77,460	25,378		102,838
Operating Expense	168,881		499,981	668,862
<u>Processing</u>	<u>Amount</u>	<u>Mining/Processing</u>	<u>Allocation of A&G Expenses</u>	<u>Total</u>
Cost	13,271,945	1,768,290		15,040,235
Reserve for Depreciation	5,082,425	957,153		6,039,578
Depreciation Expense	678,154	112,201		790,355
Operating Expense	435,987		2,210,535	2,646,522
<u>Mining</u>	<u>Amount</u>	<u>Mining/Processing</u>	<u>Allocation of A&G Expenses</u>	<u>Total</u>
Cost	50,597,921	2,995,394		53,593,315
Reserve for Depreciation and Depletion	26,022,430	1,621,368		27,643,798
Depreciation and Depletion Expense	3,300,372	190,064		3,490,435
Operating Expense	9,111,498		3,744,534	12,856,032
<u>Mining/Processing</u>	<u>Amount</u>	<u>Mining/Processing</u>	<u>Allocation of A&G Expenses</u>	<u>Total</u>
Cost	5,163,638	(5,163,638)		-
Reserve for Depreciation	2,795,011	(2,795,011)		-
Depreciation Expense	327,643	(327,643)		-
A&G Expenses	6,455,050		(6,455,050)	-

Statement R - Schedule C
Wyodak Resources Development Corporation
Coal Taxes

for the 12 Months ended December 31, 2007

Severance & Production Tax Only

	(1)	(2)
Sales Value:		
PPL Revenue	\$ 17,564,126.94	
Divided by: PPL Tons	1,658,485.38	
PPL Revenue per Ton	10.59046233	
BHP-Wyodak Plant Tons	410,015.62	
BHP-Wyodak Plant Tons Valued at PPL Price	4,342,254.98	
PPL Revenue (from above)	17,564,126.94	
BHP-Other Sales-Non Arms Length	9,365,957.50	
Other Sales	11,022,984.94	
Total Sales Value		\$ 42,294,424.25 (a)

Royalty:		
Total Sales per Coal Billing	41,741,111.98	
TRAIN LOADOUT SIDE RELEASE AGENT	41,248.56	
WYODAK PLANT - PPL - PROCESS		
Total Adjusted Sales	41,782,360.54	
Royalty Rate	12.5%	
	5,222,795.07	
Rounding		
Current Yr Royalty Exp	5,222,795.07	
Less: Pr Yr Amended Returns		
Total Royalty Exp per GL		5,222,795.07 (b)

Production Tax:		
Severance Tax (from below)	2,181,485.85	
Production Tax (from below)	1,869,845.02	
Reclamation Fee (see below)	1,723,366.51	
Black Lung Tax (see below)	1,759,203.95	
Total Production Tax		7,533,901.33 (c)

Net Sales	29,537,727.85 (a-b-c-d)
Times: Direct Cost Ratio	80.00%

Net Sales X Ratio	23,630,182.28 (e)
Taxable Value-Non Mine Mouth	31,164,083.61 (e+f)

	Severance	Production
Taxable Value-Non Mine Mouth	\$ 31,164,083.61	\$ 31,164,083.61 (f)
Multiply by: Tax Rate	7%	6%
Tax	\$ 2,181,485.85	\$ 1,869,845.02

Unadjusted Coal Sales	Adjustment	Adjusted Sales per Coal Billing
\$ 42,215,181.98	\$ (474,070.00)	\$ 41,741,111.98

G/L #	Per G/L	Current Year Taxes (Column 1)	Current Year prior to Stmt R	Stmt R J/E Amt	G/L after Stmt R
45009	5,281.481	NA	5,284,081.18	(58,686.05)	5,222,795.07
90010	2,645.598	2,181,485.85	2,204,081.90	(22,596.05)	2,623,002.26
90009	2,261.301	1,869,845.02	1,898,715.35	(28,870.33)	2,232,430.76
90011	1,723.354	1,723,366.51	-	12.18	1,723,366.51
90012	1,779.185	1,759,203.95	-	(19,980.93)	1,759,203.95

Adjustment Amount (Part VI)
\$ (296)

	Jan-Sept	Oct-Dec	Total Tons
Reclamation Fee	309,762.05	100,253.57	410,016
BHP-Wyodak Plant Tons	754,310.60	311,185.59	1,065,496
BHP-Other Plant Tons	1,064,072.65	411,439.16	1,475,512
Total BHP Tons	2,731,572.22	842,182.44	3,573,755
Non - BHP Tons	3,795,644.87	1,253,621.60	5,049,266
Total Tons	0.35	0.315	
Reclamation Fee Rate	1,328,475.70	394,890.80	

Black Lung Tax	
Total Sale per Coal Billing (from above)	41,741,111.98
Divided by:	1.044
	39,981,908.03
Times: Black Lung Rate	0.044
Total Black Lung Tax	1,759,203.95