

## Section K

**20:10:13:88. Statement K -- Income taxes.** Statement K shall show for the test period income taxes computed on the basis of the rate of return claimed applied to the overall utility rate base and separated between federal and state taxes. If the rate base claimed includes adjustments other than book figures for the test period 13-month average, the income taxes shall be computed separately for claimed rate base and for the 13-month average rate base per books for the test period. All tax adjustments shall be completely described and the amounts shown separately. Amounts of deferred taxes debited and credited shall be shown separately. The amounts and basis of assignment of income taxes attributed to other utility departments and nonutility operations shall be shown, together with all tax savings affecting the total tax liability. If the filing public utility joins in a consolidated tax return, the total estimated tax savings, expressed as a percentage, resulting from the filing of a consolidated return shall be given, as well as a full explanation of the method of computing the tax savings. Any abnormalities such as nonrecurring income, gains, losses, and deductions affecting the income tax for the test period shall be explained and the tax effect set forth. Items required by §§ 20:10:13:89 to 20:10:13:93, inclusive, shall be submitted as a part of statement K.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:** SDCL 49-34A-4.

**Law Implemented:** SDCL 49-34A-10, 49-34A-12, 49-34A-41.

**Statement K page 3:** This Schedule shows the calculation of implied debt expense using the adjusted rate base, multiplied by the adjusted cost of debt. Based on this calculation, there would be more interest expense and therefore less taxable income. The decrease in federal income tax on line 11 is then used in Statement K page 4 to decrease the adjusted federal income tax.

**Statement K page 4:** This Statement is used to adjust federal income tax to a normalized amount based on the adjusted debt to equity structure and based on adjusted operating income projections.

The adjusted Taxable Income is calculated by taking the adjusted operating income from line 13 on Statement M and subtracting the interest expense from Statement G page 2, line 16.

Federal income tax is adjusted using the projected debt to equity structure as applied to the adjusted rate base, and calculating an imputed interest expense based on the expected actual cost of debt. This calculation is performed on Statement K page 3 and the adjustment is shown on line 11.

Black Hills Power, Inc.  
South Dakota  
Cost of Service Model Description

### Section K

**20:10:13:89. Schedule K-1 -- Working papers for federal income taxes.** In support of federal income taxes, the utility shall submit a complete reconciliation of the book net income with taxable net income as reported to the federal Internal Revenue Service for the most recent year for which a tax return was filed and for the three previous years. A complete explanation of all items in the reconciliation shall be submitted. If the tax allowances claimed give effect to omission of items appearing or inclusion of items not appearing in the reconciliations for the most recent tax return, the reasons for such omissions or inclusions shall be submitted. All items in the reconciliation shall be referenced specifically to the elements of the cost of service to which they refer.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 86, effective November 24, 1985; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:** SDCL 49-34A-4.

**Law Implemented:** SDCL 49-34A-10, 49-34A-12, 49-34A-41.

Black Hills Power, Inc.  
South Dakota  
Cost of Service Model Description

### **Section K**

**20:10:13:90. Schedule K-2 -- Differences in book and tax depreciation.** If tax depreciation differs from book depreciation, the utility shall file schedule K-2 showing the computation of the tax depreciation which will indicate the differences between book and tax depreciation on a straightline basis, and differences arising from class life (ADR) depreciation, and the excess of liberalized depreciation and amortization of emergency facilities over straightline depreciation for tax purposes for the taxable year or years.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:**SDCL 49-34A-4.

**Law Implemented:**SDCL 49-34A-10, 49-34A-12, 49-34A-41.

### Section K

**20:10:13:91. Schedule K-3 -- Working papers for consolidated federal income tax.** If the utility joins in the filing of a consolidated federal income tax return, schedule K-3 shall be submitted showing the net taxable income or loss for each company in the consolidation, including an adjustment to effect the exclusion of excess of liberalized depreciation and amortization of emergency facilities over straightline depreciation for each company involved. There shall also be submitted with the statement of taxable net income or tax loss of each individual company participating in the consolidated returns, the details of consolidating adjustments and a computation of the system tax liability based on the consolidated net income for the last tax year ending within or immediately prior to the test period for which a tax return was filed. In addition, there shall be included a computation showing the percentage of tax savings arising from consolidation for the taxable year or years covered by the test period. Only one copy of schedule K-3 need be supplied by the utility.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 86, effective November 24, 1985; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:**SDCL 49-34A-4.

**Law Implemented:**SDCL 49-34A-10, 49-34A-12, 49-34A-41.

Black Hills Power, Inc.  
South Dakota  
Cost of Service Model Description

### Section K

**20:10:13:92. Schedule K-4 -- Working papers for an allowance for current tax greater than tax calculated at consolidated rate.** If the utility claims an allowance for current tax in its cost of service which would be greater than the federal income tax calculated at the consolidated tax rate or taxes as a percentage of total taxable income of individual companies with positive taxable income, full disclosure thereof shall be made, including the allocation among utility and nonutility departments of the tax payable and the assignment of deductions or tax benefits relied upon, or both.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:**SDCL 49-34A-4.

**Law Implemented:**SDCL 49-34A-10, 49-34A-12, 49-34A-41.

Black Hills Power, Inc.  
South Dakota  
Cost of Service Model Description

### Section K

**20:10:13:93. Schedule K-5 -- Working papers for claimed allowances for state income taxes.** In support of the claimed allowances for income taxes paid state governments, the utility shall submit schedule K-5 showing the income tax paid each state in the current or previous year covered by the test period, including the effect of liberalized depreciation on the taxes paid.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:** SDCL 49-34A-4.

**Law Implemented:** SDCL 49-34A-10, 49-34A-12, 49-34A-41.

**BLACK HILLS POWER, INC.**  
**COMPUTATION OF FEDERAL INCOME TAX**  
**FOR THE TEST YEAR ENDED JUNE 30, 2009**

**Statement K**  
**Page 1 of 4**

Line No.	Description	Reference	(a) Per Books	(b) pro forma Adjustments	(c) (a) + (b) Adjusted Total	(d) Additional Revenue Required	(e) (c) + (d) Claimed Rate of Return
1	Operating Income Before						
2	Federal Income Taxes	Stmt M Ln. 13	\$34,535,879	(\$16,074,062)	\$18,461,817	\$41,441,090	\$59,902,907
3	Less Interest Expense		4,879,493	10,899,302	15,778,795		15,778,795
4	Subtotal		29,656,386	(26,973,364)	2,683,022	41,441,090	44,124,112
5							
6	Tax Adjustments - Permanent Differences						
7	Fines & Penalties		1,416		1,416		1,416
8	Meals & Entertainment		37,154		37,154		37,154
9	Lobbying		5,284		5,284		5,284
10	Officer Restricted Stock		-		-		-
11	Equity AFUDC		(5,089,194)	5,089,194 (1)	-		-
12	PEP Life - Cash Surrender Value		(74,064)		(74,064)		(74,064)
13	Officer Life Insurance		(28,152)		(28,152)		(28,152)
14	RAR 79-84		(1,417)		(1,417)		(1,417)
15	AFUDC Capitalized Adjustment		-	1,338,598 (1)	1,338,598		1,338,598
16	Retiree HC Subsidy		(51,362)		(51,362)		(51,362)
17	Total Permanent Differences		(5,200,335)	6,427,792	1,227,457	-	1,227,457
18							
19	Tax Adjustments - Temporary Differences						
20	Employee Group Insurance		30,776		30,776		30,776
21	Pension		1,947,888		1,947,888		1,947,888
22	PEP Plan		94,344		94,344		94,344
23	Performance Plan Bonus		(20,205)		(20,205)		(20,205)
24	Retiree Healthcare		173,159		173,159		173,159
25	Pension Supplement (SERP)		(32,887)		(32,887)		(32,887)
26	Deferred Energy		(5,301,098)		(5,301,098)		(5,301,098)
27	Deferred Costs		(23,154)		(23,154)		(23,154)
28	Vacation		35,240		35,240		35,240
29	OCI Derivative - Interest Rate SW		64,331		64,331		64,331
30	Disability Liability		-		-		-
31	Natural Gas Inventory		-		-		-
32	Line Extension Deposits		(96,997)		(96,997)		(96,997)

**BLACK HILLS POWER, INC.**  
**COMPUTATION OF FEDERAL INCOME TAX**  
**FOR THE TEST YEAR ENDED JUNE 30, 2009**

**Statement K**  
**Page 2 of 4**

Line No.	Description	Reference	(a) Per Books	(b) pro forma Adjustments	(c) (a) + (b) Adjusted Total	(d) Additional Revenue Required	(e) (c) + (d) Claimed Rate of Return
33	Reacquired Bond Loss		160,478		160,478		160,478
34	Unamortized Bond Premium		-		-		-
35	Unbilled Revenue		-		-		-
36	Workman's Compensation		1,501,422		1,501,422		1,501,422
37	Section 174 R & D Costs		(4,384,441)		(4,384,441)		(4,384,441)
38	Contributions in Aid of Construction		1,238,952		1,238,952		1,238,952
39	Cost of Removal		(878,397)		(878,397)		(878,397)
40	Depreciation		(16,659,963)		(16,659,963)		(16,659,963)
41	Facts & Circumstances - Elect		(4,238,401)		(4,238,401)		(4,238,401)
42	Property Amortization		-		-		-
43	Prepaid Expenses		(93,639)		(93,639)		(93,639)
44	Repair Allowance		819,093		819,093		819,093
45	Unit of Property Acct Method Change		(20,000,000)		(20,000,000)		(20,000,000)
46	Bad Debt Reserve		(71,178)		(71,178)		(71,178)
47	Total Temporary Differences		<u>(45,734,677)</u>	<u>-</u>	<u>(45,734,677)</u>	<u>-</u>	<u>(45,734,677)</u>
48							
49	Taxable Income	Ln.17 + Ln.47	(21,278,626)	(20,545,572)	(41,824,198)	41,441,090	(383,108)
50							
51	Current Federal Income Tax @ 35%	Ln.49 * 0.35	(7,447,519)	(7,190,950)	(14,638,469)	14,504,382	(134,088)
52	Tax Return True Up to Current Income Taxes		(1,160,121)	-	(1,160,121)		(1,160,121)
53	FIN 48		6,092		6,092		6,092
54	Deferred Income Tax	Ln.47 * 0.35	16,007,137		16,007,137		16,007,137
55	Tax Return True Up to Deferred Taxes		1,008,952	-	1,008,952	-	1,008,952
56	Investment Tax Credit Amortization		(133,296)		(133,296)		(133,296)
57	Excess Deferred Tax Amortization		(148,188)		(148,188)		(148,188)
58	Current Income Tax on Nonoperating Income		-		-		-
59	Interest Refund on IRS audit		(3,049)		(3,049)		(3,049)
60	Total Federal Income Tax - Operating		<u>\$8,130,008</u>	<u>(7,190,950)</u>	<u>939,058</u>	<u>-</u>	<u>15,443,439</u>

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**Note 1:**

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Adjusted interest expense does not consider the effects of AFUDC capitalized for all projects. These adjustments prevent a doubling up effect of the AFUDC equity component when computing the tax provision.

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**Tax Savings Due to Consolidation**

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There will be no tax savings as a result of filing a consolidated tax return for the test year ended June 30, 2009.

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**Abnormalities for Test Period**

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None.



**BLACK HILLS POWER, INC.**  
**INTEREST EXPENSE - ANNUALIZATION ADJUSTMENT**  
**FOR THE TEST YEAR ENDED JUNE 30, 2009**

Line No.	Description	Reference	AMOUNT
1	Total Rate Base - Adjusted Total Statement M	Stmt M Ln.28(e)	\$ 479,598,637
2			
3	Weighted Debt Cost - Stmt G pg1	Stmt G pg.1 Ln.1(d)	<u>3.29%</u>
4			
5	Adjusted Interest Expense	Ln.1 * Ln.3	<u>\$ 15,778,795</u>
6			
7	Interest Expense - Stmt G pg 2	Stmt G pg.2 Ln.16(k)	<u>11,434,983</u>
8			
9	Variance	Ln.5 - Ln.7	<u>4,343,812</u>
10			
11	Federal Income Tax - 35% (Addition to FIT)	- Ln.9 * 0.35	(1,520,334)

**BLACK HILLS POWER, INC.**  
**ADJUSTED FEDERAL INCOME TAX**  
**FOR THE TEST YEAR ENDED JUNE 30, 2009**

Statement K  
Page 4 of 4

Line No.	Description	Reference	Amount
1	Adjusted Operating Income before Federal Income Tax	Stmt M Ln.13(c)	18,461,817
2			
3	Interest Expense	Stmt G pg.2 Ln.16(e)	<u>11,434,983</u>
4			
5	Taxable Income	Ln.1 - Ln.2	7,026,834
6			
7	Federal Income Tax @ 35%	Ln.5 * 0.35	2,459,393
8			
9	Interest Expense Sync	Stmt K pg.3 Ln.11	<u>(1,520,334)</u>
10			
11	Adjusted Federal Income Tax Expense	Ln.7 + Ln.9	<u>\$ 939,059</u>
12			
13	Per Books Federal Income Tax	Stmt K pg.2 Ln.60(a)	8,130,008
14			
15	Adjustment to Federal Income Tax	Ln.11 - Ln.13	\$ (7,190,949)
16			
17			
18	Current federal income tax per books is calculated on a separate return basis at the statutory rate		
19	of 35%. Interest expense adjustment is used since the adjusted interest expense tax effect is		
20	reflected on line 9.		

**BLACK HILLS POWER, INC.**  
**RECONCILIATION OF BOOK NET INCOME WITH TAXABLE INCOME**

**Schedule K-1**  
**Page 1 of 1**

**CONFIDENTIAL (NOT AVAILABLE TO THE PUBLIC)**

**BLACK HILLS POWER, INC.**  
**DIFFERENCES IN BOOK AND TAX DEPRECIATION**  
**FOR THE YEAR ENDING DECEMBER 31, 2008**

**Schedule K-2**  
**Page 1 of 1**

Line No.	Description	Reference	Amount
1	Declining Balance		\$ 44,041
2	Straight Line		216,991
3	ACRS		105,513
4	MACRS Straight Line		443,070
5	MACRS		<u>29,235,616</u>
6	Tax Depreciation		30,045,231
7			
8	Book Depreciation		<u>20,644,508</u>
9	Excess Tax Over Book Depreciation	Ln.6 - Ln.8	<u>\$ 9,400,723</u>
10			
11	NOTE : Above amounts are per the last filed tax return covering the year ended		
12	December 31, 2008.		

**BLACK HILLS POWER, INC.  
TAX ALLOCATION  
YEAR ENDED DECEMBER 31, 2008**

**Schedule K-3  
Page 1 of 1**

**CONFIDENTIAL (NOT AVAILABLE TO THE PUBLIC)**

**BLACK HILLS POWER, INC.**  
**CURRENT INCOME TAX**  
**FOR THE TEST YEAR ENDED JUNE 30, 2009**

**Schedule K-4**  
**Page 1 of 1**

Line No.	Description
1	As shown in Statement K, page 1, current Federal income tax per books is calculated
2	on a separate return basis at the statutory rate of 35%.

**BLACK HILLS POWER, INC.**  
**STATE INCOME TAXES**  
**FOR THE TEST YEAR ENDED JUNE 30, 2009**

**Schedule K-5**  
**Page 1 of 1**

Line		
No.	State	Amount
1	Montana	\$29,004
2		
3	Wyoming	N/A
4		
5	South Dakota	N/A
6		
7	Nebraska	N/A