

Section M

20:10:13:96. Statement M -- Overall cost of service. Statement M shall show for the test period the overall cost of service per books for the filing public utility's utility operations during the test period, including allowances for return and income taxes based upon the rate of return claimed, together with the operating revenues of the filing public utility for the test period. If the filing public utility claims any adjustments to book figures, the cost of service based upon the claimed adjustments shall be shown on a separate schedule. If the amount of the filing public utility's total utility operating revenue differs significantly from its overall cost of service, including allowances for claimed return and income taxes, the filing public utility shall show the amounts available for return and taxes on income and return expressed as a percentage of rate base.

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 M

Schedule M-1 – Other Rate Base Reductions. This schedule shows reductions to rate base, based on a 13 month average balance, by FERC account. The other rate base reduction amounts related specifically to the BHP CUS are highlighted on line 68. The total of these rate base reductions are on Statement M, Line 26.

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

Section M

Schedule M-2 – Adjustment to Deferred Taxes. This schedule shows the deferred tax adjustment related to the bonus depreciation to be used by Black Hills Power for our ownership percentage. This amount reduces rate base for the expected tax savings based on a 35% tax rate. This adjustment is on Statement M, Line 26(b) and it feeds into Schedule N-1.

BLACK HILLS POWER, INC.
OVERALL COST OF SERVICE
FOR THE TEST YEAR ENDED JUNE 30, 2009

Statement M
Page 1 of 1

Line No.	Description	Reference	(a) Per Books	(b) Pro forma Adjustments	(c) (a) + (b) Adjusted Total	(d) Additional Revenue Required	(e) (c) + (d) Adjusted Rate of Return
Operating Revenue							
1	Sales of Electricity	Stmt I pg.1 Ln.14	\$ 195,526,448	\$ (54,090,481)	\$ 141,435,967	\$ 41,441,090	\$ 182,877,057
2	Other Operating Revenue	Stmt I pg.1 Ln.24	22,556,264	(3,351,886)	19,204,378		19,204,378
3	Total Operating Revenue		<u>218,082,712</u>	<u>(57,442,367)</u>	<u>160,640,345</u>	41,441,090	<u>202,081,435</u>
4							
Operating Expenses							
6	Operation and Maintenance	Stmt H pg.1 Ln.129	156,282,134	(46,976,024)	109,306,110	-	109,306,110
7	Depreciation	Stmt J Ln.14(f)	20,300,775	4,442,831	24,743,606	-	24,743,606
8	Amortization	Stmt J Ln.16(f)	151,404	-	151,404	-	151,404
9	Taxes Other Than Income Tax	Stmt L Ln.17	6,783,516	1,164,888	7,948,404	-	7,948,404
10	State Income Tax	Sched K-5 Ln.1	29,004		29,004	-	29,004
11	Total Operating Expenses		<u>183,546,833</u>	<u>(41,368,305)</u>	<u>142,178,528</u>	-	<u>142,178,528</u>
12							
13	Operating Income Before Tax	Ln.3 - Ln.11	34,535,879	(16,074,062)	18,461,817	41,441,090	59,902,907
14							
15	Federal Income Tax	Stmt K pg.2 Ln.60	8,130,008	(7,190,949)	939,059	14,504,382	15,443,441
16							
17	Return (Operating Income)	Ln.13 - Ln.15	<u>\$ 26,405,871</u>		<u>\$ 17,522,758</u>		<u>\$ 44,459,466</u>
18							
19	Rate of Return	Ln.17 ÷ Ln.28	<u>7.79%</u>		<u>3.65%</u>		<u>9.27%</u>
20							
Rate Base							
22	Plant in Service	Stmt D pg.2 Ln.23(a)	708,166,707	162,476,571	870,643,278	-	870,643,278
23	Accumulated Depreciation	Stmt E pg.1 Ln.15	(298,829,320)	(474,081)	(299,303,401)	-	(299,303,401)
24	Accumulated Amort. Acq. Adj.	Stmt E pg.2 Ln.15	(2,674,807)	-	(2,674,807)	-	(2,674,807)
25	Working Capital	Stmt F Ln.9	23,251,808	(1,557,252)	21,694,556	-	21,694,556
26	Other Rate Base Reductions	Sched M-1 Ln.60	(90,849,080)	(19,911,909)	(110,760,989)	-	(110,760,989)
27							
28	Total Rate Base		<u>\$ 339,065,308</u>	<u>\$ 140,533,329</u>	<u>\$ 479,598,637</u>	\$ -	<u>\$ 479,598,637</u>
29							
30	Note 1	Stmt J Ln.22 ÷ 2					
31	Note 2	Sched M-2 Ln.3(g)					

BLACK HILLS POWER, INC.
OTHER RATE BASE REDUCTIONS
FOR THE TEST YEAR ENDED JUNE 30, 2009

Schedule M-1
Page 2 of 4

Line No.	Description	FERC Account #	(a)	(b)	(c)	(d)	(e)	(f)
			Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08
46	Unamortized Investment Tax Credit (Pre-1971)							
47	All Amortized							
48								
49	Customer Advances for Construction	All 252 Accts	4,617,115	4,658,848	4,524,653	4,709,792	4,710,591	4,704,621
50								
51	Other Liabilities							
52	Accrued Pension Supplement	253-1000	944,449	941,629	938,810	932,583	929,764	930,351
53	Accrued Director's Pension	253-1100	(5,430)	(6,928)	(8,426)	(9,924)	(11,422)	(12,920)
54	Accrued PEP Liability	253-1300	1,833,983	1,840,107	1,846,230	1,855,760	1,861,883	1,864,600
55	Retiree Health Care Liability	253-1400	6,632,581	6,667,538	6,701,115	6,764,326	6,800,150	6,860,173
56	Air Allowances	253-1500	366,349	366,346	366,346	366,346	366,346	366,346
57	Regulatory Liability	254-1000	286,446	286,446	286,446	286,446	286,446	286,446
58	Subtotal		10,058,378	10,095,138	10,130,521	10,195,538	10,233,167	10,294,996
59								
60	Total-Black Hills Power		\$ 79,683,695	\$ 82,439,932	\$ 82,328,581	\$ 85,971,590	\$ 85,935,546	\$ 85,973,324
61								
62	Less: Transmission Other Rate Base Reductions							
63	Accelerated Depreciation	282						
64	Accumulated Deferred Income Taxes	283						
65	Accumulated Deferred Income Taxes	190						
66	Accum. Deferred ITC	255						
67	Reg Liab - Plant (Gross Up on Excess DIT)	254-1100						
68	Subtotal							
69	Total to be included in the Black Hills Power State Rate Base							

BLACK HILLS POWER, INC.
OTHER RATE BASE REDUCTIONS
FOR THE TEST YEAR ENDED JUNE 30, 2009

Schedule M-1
Page 3 of 4

Line No.	Description	FERC Account #	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
			Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	12 Month Average
1	Accumulated Current Deferred Income Tax Liabilities (Assets)									
2	Prepaid Expenses	283-2200	213,319	213,319	213,319	213,319	213,319	213,319	213,319	198,193
3	Deferred Costs	283-2400	1,579,690	1,579,690	1,579,690	1,978,424	1,978,424	1,978,424	2,199,288	1,354,828
4	Bad Debt Reserve	190-1100	(129,501)	(129,501)	(129,501)	(129,792)	(129,792)	(129,792)	(127,826)	(150,109)
5	Vacation Pay	190-1200	(261,674)	(261,674)	(261,674)	(261,674)	(261,674)	(261,674)	(261,674)	(255,981)
6	Employee Group Insurance	190-2000	(84,242)	(84,242)	(84,242)	(84,242)	(84,242)	(84,242)	(84,242)	(79,270)
7	Workers Comp	190-2100	(511,877)	(511,877)	(511,877)	(523,022)	(523,022)	(523,022)	(533,621)	(283,806)
8	Results Comp Plan	190-2400	(73,758)	(73,758)	(73,758)	(73,758)	(73,758)	(73,758)	(73,758)	(72,585)
9	Subtotal		731,957	731,957	731,957	1,119,255	1,119,255	1,119,255	1,331,486	711,270
10										
11	Accumulated Noncurrent Deferred Income Tax Liabilities (Assets)									
12	Reg Liab - Plant (Excess Tax Only)	254-1100	936,839	924,490	912,141	899,792	887,443	875,094	1,296,158	970,178
13	Amortization of Property	281-1000	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
14	Accelerated Depreciation	282-1000	83,112,346	83,112,346	83,112,346	84,986,619	84,986,619	84,986,619	86,939,363	78,832,848
15	Pension Plan	283-1200	2,237,157	2,237,157	2,237,157	1,929,838	1,929,838	1,929,838	1,622,520	2,152,215
16	Regulatory Asset PE	283-1250	9,189,628	9,189,628	9,189,628	9,189,628	9,189,628	9,189,628	9,189,628	5,432,596
17	Reacquired Bonds Loss	283-1300	828,392	828,392	828,392	814,350	814,350	814,350	800,308	832,712
18	Deferred Compensation	190-1000	(324,631)	(324,631)	(324,631)	(321,837)	(321,837)	(321,837)	(319,042)	(325,331)
19	PEP Plan	190-1500	(483,764)	(483,764)	(483,764)	(487,149)	(487,149)	(487,149)	(492,282)	(475,288)
20	Retiree - Health Care	190-1900	(2,715,592)	(2,715,592)	(2,715,592)	(2,715,592)	(2,715,592)	(2,715,592)	(2,715,592)	(2,700,185)
21	Line Extensions	190-2500	(1,151,174)	(1,151,174)	(1,151,174)	(1,151,174)	(1,151,174)	(1,151,174)	(1,151,174)	(1,170,604)
22	Air Allowances	190-2800	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)
23	Pension Plan (AOCI)	190-3200	(9,189,628)	(9,189,628)	(9,189,628)	(9,189,628)	(9,189,628)	(9,189,628)	(9,189,628)	(5,432,596)
24	PEP Plan (AOCI)	190-3210	(227,087)	(227,087)	(227,087)	(227,087)	(227,087)	(227,087)	(227,087)	(226,456)
25	Retiree Health (AOCI)	190-3220	(332,448)	(332,448)	(332,448)	(332,448)	(332,448)	(332,448)	(332,448)	(256,623)
26	Performance Plan	190-4200	(5,009)	(5,009)	(5,009)	(5,009)	(5,009)	(5,009)	(5,009)	(8,273)
27	Subtotal		81,746,807	81,734,458	81,722,109	83,262,081	83,249,732	83,237,383	85,287,493	77,496,971
28										
29	FAS 109 Liabilities (Assets)									
30	Reg Liab - Plant (Gross Up on Excess DIT)	254-1100	505,777	499,238	492,699	486,160	479,621	473,082	33,130	472,438
31	Reg Liab - ITC	254-1200	128,148	122,566	116,984	111,402	105,820	100,238	94,656	129,438
32	Reg Liab - Retiree HC	254-1460	11,064	11,064	11,064	11,064	11,064	11,064	11,064	227,707
33	Accum. Deferred ITC	255-1000	237,988	227,622	217,255	206,889	196,522	186,156	175,789	240,384
34	Equity AFUDC	283-1400	3,247,071	3,247,071	3,247,071	3,247,071	3,247,071	3,247,071	3,247,071	3,154,271
35	FAS 109 - AFUDC	283-1450	1,748,423	1,748,423	1,748,423	1,748,423	1,748,423	1,748,423	1,748,423	1,679,235
36	Regulatory Retiree	283-1650	332,448	332,448	332,448	332,448	332,448	332,448	332,448	256,623
37	Derivative MV	283-2100	(0)	1,876	3,753	-	1,876	3,753	0	1,732
38	Reg Asset - AFUDC	182-3000	(4,995,494)	(4,995,494)	(4,995,494)	(4,995,494)	(4,995,494)	(4,995,494)	(4,995,494)	(4,797,814)
39	Reg Asset- Rate Case Electric	182-3600	(199,276)	(189,491)	(179,707)	(169,922)	(160,137)	(150,353)	(140,568)	(174,768)
40	Reg Asset - Pension	182-3700	(2,998,261)	(2,998,261)	(2,998,261)	(2,998,261)	(2,998,261)	(2,998,261)	(2,998,261)	(2,998,261)
41	ITC	190-1600	(83,296)	(79,668)	(76,040)	(72,411)	(68,783)	(65,155)	(61,526)	(84,135)
42	Def. Tax - FAS 109	190-1700	(505,777)	(499,238)	(492,699)	(486,160)	(479,621)	(473,082)	(466,543)	(505,777)
43	Def. Tax - FAS 109 - ITC	190-1750	(44,852)	(42,898)	(40,944)	(38,991)	(37,037)	(35,083)	(33,130)	(45,303)
44	Subtotal		(2,616,037)	(2,614,742)	(2,613,448)	(2,617,782)	(2,616,488)	(2,615,190)	(3,052,941)	(2,444,230)
45										

[(Sum of (a) - (m))/13]

BLACK HILLS POWER, INC.
OTHER RATE BASE REDUCTIONS
FOR THE TEST YEAR ENDED JUNE 30, 2009

Schedule M-1
Page 4 of 4

Line No.	Description	FERC Account #	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
			Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	12 Month Average
46	Unamortized Investment Tax Credit (Pre-1971)									
47	All Amortized									
48										
49	Customer Advances for Construction	All 252 Accts	4,680,713	4,671,187	4,676,808	4,397,711	4,273,142	4,286,282	4,280,724	4,553,245
50										
51	Other Liabilities									
52	Accrued Pension Supplement	253-1000	927,531	924,712	922,208	919,547	916,885	914,224	911,562	927,250
53	Accrued Director's Pension	253-1100	-	(1,498)	(2,905)	(3,358)	(2,811)	(2,263)	(1,716)	(5,354)
54	Accrued PEP Liability	253-1300	1,922,225	1,928,807	1,930,910	1,935,252	1,939,594	1,943,936	1,948,278	1,896,274
55	Retiree Health Care Liability	253-1400	7,190,339	7,240,464	7,285,429	7,332,626	7,394,461	7,434,075	7,484,005	7,060,560
56	Air Allowances	253-1500	366,346	366,346	366,346	366,346	366,346	366,346	366,346	366,346
57	Regulatory Liability	254-1000	286,446	286,446	286,446	286,446	286,446	286,446	290,365	286,748
58	Subtotal		10,692,887	10,745,276	10,788,434	10,836,858	10,900,921	10,942,764	10,998,840	10,531,824
59										
60	Total-Black Hills Power		\$ 95,236,327	\$ 95,268,136	\$ 95,305,860	\$ 96,998,123	\$ 96,926,562	\$ 96,970,494	\$ 98,845,602	\$ 90,849,080
61										
62	Less: Transmission Other Rate Base Reductions									
63	Accelerated Depreciation	282								(10,571,928)
64	Accumulated Deferred Income Taxes	283								(2,103,669)
65	Accumulated Deferred Income Taxes	190								2,065,471
66	Accum. Deferred ITC	255								(21,382)
67	Reg Liab - Plant (Gross Up on Excess DIT)	254-1100								127,598
68	Subtotal									(10,503,910)
69	Total to be included in the Black Hills Power State Rate Base									80,345,170

BLACK HILLS POWER, INC.
ADJUSTMENT TO DEFERRED TAXES
FOR THE PRO FORMA TEST YEAR ENDED JUNE 30, 2009

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
					(a) * (c)	(b) - (d)		(e) * (f)
Line		(Stmt D pg 2)	(Stmt. J)	1st Year Tax	Tax	Difference	Tax Rate	Deferred Tax
No.	Capital Additions	Amount	Book Depreciation	Rate	Depreciation			
1	Wygen III	128,480,505	3,494,670	47.00%	60,385,837	(56,891,167)	35%	(19,911,909)
2								
3	Total	<u>\$ 128,480,505</u>	<u>\$ 3,494,670</u>		<u>\$ 60,385,837</u>	<u>\$ (56,891,167)</u>		<u>\$ (19,911,909)</u>