

Transmission Cost Recovery
Base Assumptions

Public Document Trade Secret Data Has Been
Excised

Weighted Cost of Capital

	2008 Actual			2009 - 2011		
	Rate	Ratio	Weighted Cost	Rate	Ratio	Weighted Cost
Long Term Debt						
Preferred Stock						
Short Term Debt						
Common Equity						
Required Rate of Return			8.37%			8.38%

Composite Income Tax Rates

	2008	2009	2010	2011
State of South Dakota Tax rate	0.00%	0.00%	0.00%	0.00%
Federal Statutory Tax rate	35.00%	35.00%	35.00%	35.00%
Federal Effective Tax Rate (1-State Rate * Fed Rate)	35.00%	35.00%	35.00%	35.00%
Total South Dakota Composite Tax Rate	35.0000%	35.0000%	35.0000%	35.0000%
Total Corporate Composite Tax Rate (2009 Forecast)	40.8752%	40.8630%	40.8669%	40.8568%

State of SD Transmission Demand Factor (1)

36 Month Coincident Peak Demand Allocator	4.3342%	4.4651%	4.6258%	4.6785%
State of South Dakota Retail Demand Allocator	84.4224%	83.8829%	83.6422%	83.8756%
	5.1340%	5.3230%	5.5305%	5.5779%

Composite Depreciation Rates

Depreciation Rate - Lines	2.1259%	2.6518%	2.6518%	2.6518%
Depreciation Rate - Substations	2.4936%	2.6151%	2.6151%	2.6151%

Property Tax Rates

Property Tax Rate: MN State Electric Personal Property Tax Rate	1.620%	1.386%	1.386%	1.386%
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OATT Revenue Credit for Non-Retail Transmission Recovery

	25.0400%	23.8700%	20.3100%	19.8200%
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(1) Calculation of State of South Dakota - Demand Allocators

	Total	Minnesota Company	Minnesota	N Dakota	S Dakota	Wholesale	WI Co
<u>2008 Transmission Demand Allocators</u>							
36 Month Coin Peak Demand	100.0000%	84.4224%					15.5776%
12 Month Jurisdictional Demand	100.0000%		86.7317%	5.6655%	5.1340%	2.4688%	
2008 State of SD Transmission Demand Factor					4.3342%		
<u>2009 Transmission Demand Allocators</u>							
36 Month Coin Peak Demand	100.0000%	83.8829%					16.1171%
12 Month Jurisdictional Demand	100.0000%		87.0761%	5.6745%	5.3230%	1.9264%	
2009 State of SD Transmission Demand Factor					4.4651%		
<u>2010 Transmission Demand Allocators</u>							
36 Month Coin Peak Demand	100.0000%	83.6422%					16.3578%
12 Month Jurisdictional Demand	100.0000%		87.7595%	5.8462%	5.5305%	0.8638%	
2010 State of SD Transmission Demand Factor					4.6258%		
<u>2011 Transmission Demand Allocators</u>							
36 Month Coin Peak Demand	100.0000%	83.8756%					16.1244%
12 Month Jurisdictional Demand	100.0000%		88.4924%	5.8107%	5.5779%	0.1190%	
2011 State of SD Transmission Demand Factor					4.6785%		

2008 Actual

<u>Cost of Capital**</u>	<u>Annual</u>			
Weighted Cost of Debt				
Weighted Cost of Equity				
Total Cost of Capital		8.37%		
Tax Gross-up	2.7693%	Monthly***	Composite Tax Rate - SD	35.00%
Cost of Capital Including Taxes	11.1373%	0.8839%		

2009 Actual - 2011 Forecast

<u>Cost of Capital**</u>	<u>Annual</u>			
Weighted Cost of Debt				
Weighted Cost of Equity				
Total Cost of Capital		8.38%		
Tax Gross-up	2.8504%	Monthly***	Composite Tax Rate - SD	35.00%
Cost of Capital Including Taxes	11.2324%	0.8910%		

***The Annual Cost of Capital was adjusted for monthly compounding.