

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 1 & 2: 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.

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 less interest expense and therefore more taxable income. The decrease of interest expense is reported on Statement K pg. 1 line 4.

BLACK HILLS POWER, INC.
COMPUTATION OF FEDERAL INCOME TAX
For the Test Year Ended June 30, 2012

Statement K
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Line No.	Description	Reference	(a) Per Books	(b) Pro Forma Tax Rtn True Up	(c) Per Books as Adjusted Total (a) + (b)	(d) Pro Forma Adjustments	(e) Adjusted Total (c) + (e)	(f) Additional Revenue Required	(g) Claimed Rate of Return (e) + (f)
1	Operating Income Before								
2	Federal Income Taxes	Stmt. M Ln. 14(a)	\$ 59,392,614	\$ -	\$ 59,392,614	\$ (7,336,442)	\$ 52,056,172	\$ 10,570,073	\$ 62,626,245
3	AFUDC		(490,930)	-	(490,930)	-	(490,930)	-	(490,930)
4	Less Interest Expense		17,904,870	162,837	18,067,707 (1)	(690,412)	17,377,295	-	17,377,295
5	Subtotal	Ln.2 - Ln.3 - Ln.4	41,978,674	(162,837)	41,815,837	(6,646,030)	35,169,807	10,570,073	45,739,880
6									
7	Tax Adjustments - Permanent Differences								
8	Fines & Penalties		183,165	-	183,165	-	183,165	-	183,165
9	Meals & Entertainment		129,660	(4)	129,656	-	129,656	-	129,656
10	Lobbying		71,714	-	71,714	-	71,714	-	71,714
11	Club Dues		2,721	248	2,969	-	2,969	-	2,969
12	Equity AFUDC (net of depr)		(509,058)	109,567	(399,491)	-	(399,491)	-	(399,491)
13	PEP Life - Cash Surrender Value		80,869	(661,528)	(580,659)	-	(580,659)	-	(580,659)
14	Officer Life Insurance		-	606,603	606,603	-	606,603	-	606,603
15	Retiree HC Subsidy		-	(67,263)	(67,263)	-	(67,263)	-	(67,263)
16	Total Permanent Differences	Sum (Ln.8:Ln.15)	(40,929)	(12,377)	(53,306)	-	(53,306)	-	(53,306)
17									
18	Tax Adjustments - Temporary Differences								
19	Prepays		-	(85,100)	(85,100)	-	(85,100)	-	(85,100)
20	Employee Group Insurance		(3,665)	-	(3,665)	-	(3,665)	-	(3,665)
21	Pension		2,496,436	(6,835,000)	(4,338,564)	-	(4,338,564)	-	(4,338,564)
22	PEP Plan		33,986	(63,456)	(29,470)	-	(29,470)	-	(29,470)
23	Performance Plan Bonus		-	819	819	-	819	-	819
24	Retiree Healthcare		237,031	-	237,031	-	237,031	-	237,031
25	Pension Supplement (SERP)		(53,345)	-	(53,345)	-	(53,345)	-	(53,345)
26	Deferred Energy		(4,559,695)	-	(4,559,695)	-	(4,559,695)	-	(4,559,695)
27	Deferred Costs		85,860	151,519	237,379	-	237,379	-	237,379
28	Vacation		161,872	42,597	204,469	-	204,469	-	204,469
29	OCI Derivative - Interest Rate SW		64,332	-	64,332	-	64,332	-	64,332
30	Results Compensation		(575,392)	42,404	(532,988)	-	(532,988)	-	(532,988)
31	Insurance Reserve		6,374	(249)	6,125	-	6,125	-	6,125
32	Line Extension Deposits		(1,915,571)	(64,257)	(1,979,828)	-	(1,979,828)	-	(1,979,828)
33	Reacquired Bond Loss		393,636	(1)	393,635	-	393,635	-	393,635
34	Power Plant Maintenance		(154,490)	-	(154,490)	-	(154,490)	-	(154,490)

BLACK HILLS POWER, INC.
COMPUTATION OF FEDERAL INCOME TAX
For the Test Year Ended June 30, 2012

Statement K
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Line No.	Description	Reference	(a) Per Books	(b) Pro Forma Tax Rtn True Up	(c) (a) + (b) Per Books as Adjusted Total	(d) Pro Forma Adjustments	(e) (c) + (e) Adjusted Total	(f) Additional Revenue Required	(g) (e) + (f) Claimed Rate of Return
35	Rate Refund		(331,560)		(331,560)	-	(331,560)	-	(331,560)
36	Workman's Compensation		(174,501)	1	(174,500)	-	(174,500)	-	(174,500)
37	Gain/Loss on Disposition of Assets		-	657,621	657,621	-	657,621	-	657,621
38	Contributions in Aid of Construction		1,880,627		1,880,627	-	1,880,627	-	1,880,627
39	Cost of Removal		(2,854,833)		(2,854,833)	-	(2,854,833)	-	(2,854,833)
40	Depreciation		(33,285,475)	874,509	(32,410,966)	-	(32,410,966)	-	(32,410,966)
41	Facts & Circumstances - Elect		(5,286,102)	2,455,453	(2,830,649)	-	(2,830,649)	-	(2,830,649)
42	Property Amortization		-	(6,462)	(6,462)	-	(6,462)	-	(6,462)
43	Simplified Service Cost		-	(17,162)	(17,162)	-	(17,162)	-	(17,162)
44	Unit of Property		(2,487,989)	(4,141,988)	(6,629,977)	-	(6,629,977)	-	(6,629,977)
45	Bad Debt Reserve		-	163,188	163,188	-	163,188	-	163,188
46	Total Temporary Differences	Sum (Ln.19:Ln.45)	(46,322,464)	(6,825,564)	(53,148,028)	-	(53,148,028)	-	(53,148,028)
47									
48	Taxable Income (NOL)	Ln.5 + Ln.16 + Ln.46	(4,384,719)	(7,000,778)	(11,385,497)	(6,646,030)	(18,031,527)	10,570,073	(7,461,454)
49									
50	Current Federal Income Tax @ 35%	Ln.48 * 35%	(1,534,652)	(2,450,272)	(3,984,924)	(2,326,111)	(6,311,035)	3,699,526	(2,611,509)
51	FIN 48		(238,659)	191,814	(46,845)	-	(46,845)	-	(46,845)
52	Deferred Income Tax	Ln.46 * 35%	16,212,862	2,388,947	18,601,810	-	18,601,810	-	18,601,810
53	Flow Thru Unit of Property Net of Depr		(591,159)	(591,778)	(1,182,937)	-	(1,182,937)	-	(1,182,937)
54	Tax Return True Up 2010		(997,050)	997,050	-	-	-	-	-
55	R & D credit		761,564	(767,257)	(5,693)	-	(5,693)	-	(5,693)
56	Miscellaneous Tax Adjustment		(107,566)	107,566	-	-	-	-	-
57	Investment Tax Credit Amortization		(7,133)	-	(7,133)	-	(7,133)	-	(7,133)
58	Excess Deferred Tax Amortization		(148,188)	-	(148,188)	-	(148,188)	-	(148,188)
59	Total Federal Income Tax - Operating	Sum (Ln.50:Ln.58)	<u>\$ 13,350,019</u>	<u>\$ (123,929)</u>	<u>\$ 13,226,090</u>	<u>\$ (2,326,111)</u>	<u>\$ 10,899,979</u>	<u>\$ 3,699,526</u>	<u>\$ 14,599,505</u>

Tax Savings Due to Consolidation

There will be no tax savings as a result of filing a consolidated tax return for the test year ended June 30, 2012.

Adjustments

Adjustments to per book reflect true-up adjustment to 2011 tax return, the removal of the true up adjustment to the 2010 tax return, and an adjustment related to prior years' R&D credit net of FIN 48 liability.

Abnormalities for Test Period

None.

Note 1: See Statement K, page 3 of 3.

BLACK HILLS POWER, INC.
INTEREST EXPENSE - ANNUALIZATION ADJUSTMENT
For the Test Year Ended June 30, 2012

Line No.	Description	Reference	Amount
1	Total Rate Base - Adjusted Total Statement M	Stmt. M Ln. 29(e)	\$ 562,372,014
2			
3	Weighted Debt Cost - Stmt G pg1	Stmt. G pg. 1 Ln. 2(d)	<u>3.09%</u>
4			
5	Adjusted Interest Expense	Ln. 1 * Ln. 3	<u>\$ 17,377,295</u>
6			
7	Interest Expense - Stmt G pg2	Stmt. G pg. 2 Ln. 21(k)	18,067,707
8			
9	Variance	Ln. 5 - Ln. 7	<u>(690,412)</u>
10			
11	Federal Income Tax - 35% (Addition to FIT)	-Ln. 9 * 35%	<u>\$ 241,644</u>