

## 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 Statement 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 Pro Forma Test Year Ended September 30, 2013**

**Statement K**  
**Page 1 of 3**

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
1	Operating Income Before								
2	Federal Income Taxes	Stmt. M Ln. 14(a)	\$ 60,839,739	\$ -	\$ 60,839,739	\$ 2,801,238	\$ 63,640,976	\$ 12,208,401	\$ 75,849,377
3	AFUDC		(3,931,226)	-	(3,931,226)	-	(3,931,226)	-	(3,931,226)
4	Less Interest Expense		22,233,936	-	22,233,936	(2,206,631)	20,027,305	-	20,027,305
5	Subtotal	Ln.2 - Ln.3 - Ln.4	42,537,028	-	42,537,028	5,007,868	47,544,896	12,208,401	59,753,298
6									
7	Tax Adjustments - Permanent Differences								
8	Fines & Penalties		(33,117)	106,000	72,883	-	72,883	-	72,883
9	Meals & Entertainment		80,540	13,996	94,536	-	94,536	-	94,536
10	Lobbying		37,459	-	37,459	-	37,459	-	37,459
11	Club Dues		3,411	3,005	6,416	-	6,416	-	6,416
12	Equity AFUDC (net of depr)		167,939	-	167,939	(404,311)	(236,372)	-	(236,372)
13	PEP Life - Cash Surrender Value		(177,964)	(706,681)	(884,645)	-	(884,645)	-	(884,645)
14	Officer Life Insurance		(108,692)	-	(108,692)	-	(108,692)	-	(108,692)
15	Retiree HC Subsidy		-	(71,914)	(71,914)	-	(71,914)	-	(71,914)
16	Total Permanent Differences	Sum (Ln.8:Ln.15)	(30,424)	(655,594)	(686,018)	(404,311)	(1,090,329)	-	(1,090,329)
17									
18	Tax Adjustments - Temporary Differences								
19	Prepays		-	19,771	19,771	-	19,771	-	19,771
20	State Tax Deduction		-	(5,063)	(5,063)	-	(5,063)	-	(5,063)
21	Employee Group Insurance		(42,465)	-	(42,465)	-	(42,465)	-	(42,465)
22	Pension		545,759	(2,299,000)	(1,753,241)	-	(1,753,241)	-	(1,753,241)
23	PEP Plan		(86,060)	-	(86,060)	-	(86,060)	-	(86,060)
24	Performance Plan Bonus		-	3,108	3,108	-	3,108	-	3,108
25	Retiree Healthcare		(172,474)	(852,539)	(1,025,013)	-	(1,025,013)	-	(1,025,013)
26	Pension Supplement (SERP)		59,656	-	59,656	-	59,656	-	59,656
27	Deferred Energy		1,089,537	(2,822)	1,086,715	-	1,086,715	-	1,086,715
28	Deferred Costs		(704,284)	238,963	(465,321)	-	(465,321)	-	(465,321)
29	Vacation		42,725	-	42,725	-	42,725	-	42,725
30	OCI Derivative - Interest Rate SW		(101,664)	(1)	(101,665)	-	(101,665)	-	(101,665)
31	Results Compensation		(128,130)	-	(128,130)	-	(128,130)	-	(128,130)
32	Insurance Reserve		-	-	-	-	-	-	-
33	Line Extension Deposits		(289,220)	28,575	(260,645)	-	(260,645)	-	(260,645)
34	Accrued Litigation		888,139	-	888,139	-	888,139	-	888,139
35	Reacquired Bond Loss		243,627	-	243,627	-	243,627	-	243,627
36	Power Plant Maintenance		434,448	-	434,448	-	434,448	-	434,448

**BLACK HILLS POWER, INC.**  
**COMPUTATION OF FEDERAL INCOME TAX**  
**For the Pro Forma Test Year Ended September 30, 2013**

**Statement K**  
**Page 2 of 3**

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)
37	Rate Refund		1,726,112		1,726,112	-	1,726,112	-	1,726,112
38	Workman's Compensation		(99,416)	-	(99,416)	-	(99,416)	-	(99,416)
39	Section 174 Develop & Engineer Cos		(3,150,948)	(1,010,728)	(4,161,676)	-	(4,161,676)	-	(4,161,676)
40	Section 162 Costs		-	(428,537)	(428,537)	-	(428,537)	-	(428,537)
41	Gain/Loss on Disposition of Assets		-	(88,254)	(88,254)	-	(88,254)	-	(88,254)
42	Contributions in Aid of Construction		752,961	(449,841)	303,120	-	303,120	-	303,120
43	Cost of Removal		(1,575,558)	-	(1,575,558)	-	(1,575,558)	-	(1,575,558)
44	Depreciation		(3,560,290)	554,100	(3,006,190)	-	(3,006,190)	-	(3,006,190)
45	Facts & Circumstances - Elect		(25,010)	(153,830)	(178,840)	-	(178,840)	-	(178,840)
46	Property Amortization		-	-	-	-	-	-	-
47	Simplified Service Cost		-	(52,618)	(52,618)	-	(52,618)	-	(52,618)
48	Gain Deferral		(2,740,999)	(54,266)	(2,795,265)	-	(2,795,265)	-	(2,795,265)
49	Unit of Property		-	(757,737)	(757,737)	-	(757,737)	-	(757,737)
50	Bad Debt Reserve		-	(1,789,726)	(1,789,726)	-	(1,789,726)	-	(1,789,726)
51	Total Temporary Differences	Sum (Ln.19:Ln.50)	(6,893,554)	(7,100,445)	(13,993,999)	-	(13,993,999)	-	(13,993,999)
52									
53	Taxable Income (NOL)	Ln.5 + Ln.16 + Ln.51	35,613,050	(7,756,039)	27,857,011	4,603,557	32,460,568	12,208,401	44,668,970
54	Net Operating Loss		(35,613,050)	7,756,039	(27,857,011)	(4,603,557)	(32,460,568)	(12,208,401)	(44,668,970)
55	Taxable Income		-	-	-	-	-	-	-
56									
57	Current Federal Income Tax @ 35%	Ln.48 * 35%	-	-	-	-	-	-	-
58	FIN 48		98,535	-	98,535	-	98,535	-	98,535
59	Deferred Income Tax	-(Ln.46 + 54) * 35%	14,877,311	(229,458)	14,647,854	1,611,245	16,259,098	4,272,940	20,532,039
60	Flow Thru Unit of Property Net of Depr		(710,837)	(75,973)	(786,810)	-	(786,810)	-	(786,810)
61	Tax Return True Up 2012 and DIT True Up		1,116,039	-	1,116,039	(1,116,039)	-	-	-
62	R & D credit		(275,849)	-	(275,849)	-	(275,849)	-	(275,849)
63	Tax effect of I/C Interest Expense		-	(683,125)	(683,125)	683,125	-	-	-
64	Remove: Non-Operating Income Tax Expense (Benefit)		57,373	-	57,373	(57,373)	-	-	-
65	Miscellaneous Tax Adjustment		(7,557)	-	(7,557)	7,557	-	-	-
66	Investment Tax Credit Amortization		-	-	-	-	-	-	-
67	Excess Deferred Tax Amortization		(140,980)	-	(140,980)	-	(140,980)	-	(140,980)
68	Total Federal Income Tax - Operating	Sum (Ln.57:Ln.65)	<u>\$ 15,014,035</u>	<u>\$ (988,556)</u>	<u>\$ 14,025,480</u>	<u>\$ 1,128,515</u>	<u>\$ 15,153,994</u>	<u>\$ 4,272,940</u>	<u>\$ 19,426,935</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, 2013.

**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 September 30, 2013**

Line No.	Description	Reference	Amount
1	Total Rate Base - Adjusted Total Statement M	Stmt. M Ln. 29(e)	\$ 665,358,984
2			
3	Weighted Debt Cost - Stmt G pg1	Stmt. G pg. 1 Ln. 2(d)	<u>3.01%</u>
4			
5	Adjusted Interest Expense	Ln. 1 * Ln. 3	20,027,305
6			
7	Interest Expense - Stmt G pg2	Stmt. G pg. 2 Ln. 13(k)	<u>17,735,909</u>
8			
9	Variance	Ln. 5 - Ln. 7	<u>2,291,396</u>
10			
11	Federal Income Tax - 35% (Addition to FIT)	-Ln. 9 * 35%	<u>\$ (801,989)</u>
12			
13	Note: Interest expense variance on line 11 is included in the pro forma adjustments column (d)		
14	on Stmt K pg 1.		