COST OF SERVICE GAS AGREEMENT

This COST OF SERVICE GAS AGREEMENT ("**COSG Agreement**"), dated September 15, 2015, is by and between BLACK HILLS UTILITY HOLDINGS, INC., a South Dakota corporation, ("**BHUH**") and the following (each a "**Utility**" and collectively the "**Utilities**"): BLACK HILLS POWER, INC., a South Dakota corporation; BLACK HILLS/COLORADO ELECTRIC UTILITY COMPANY, LP, a Delaware limited partnership; BLACK HILLS/COLORADO GAS UTILITY COMPANY, LP, a Delaware limited partnership; BLACK HILLS/IOWA GAS UTILITY COMPANY, LLC, a Delaware limited liability company; BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC, a Kansas limited liability company; BLACK HILLS/NEBRASKA GAS UTILITY COMPANY, LLC, a Delaware limited liability company; BLACK HILLS NORTHWEST WYOMING GAS UTILITY COMPANY, LLC, a Wyoming limited liability company; and CHEYENNE LIGHT, FUEL AND POWER COMPANY, a Wyoming corporation. BHUH and Utilities are referred to individually as a "**Party**" and collectively as the "**Parties**."

RECITALS

A. BHUH purchases natural gas for, or on behalf of, each Utility.

B. Each Utility desires for BHUH to cause physical reserves of natural gas to be acquired and developed pursuant to this COSG Agreement to (i) reduce volatility in the price for natural gas, (ii) hedge against long-term increases in the market price for natural gas, and (iii) reduce long-term costs to its customers by using a cost-based, rather than market-based, approach to meeting a portion of its natural gas needs.

NOW, THEREFORE, the Parties agree as follows:

ARTICLE 1 - DEFINITIONS

The following terms shall have the following meanings:

"**Accounting Monitor**" means an independent, third-party certified public accountant.

"**Acquisition Criteria**" means the criteria set forth in attached Exhibit A.

"**Actual ROE**" means the percentage obtained by dividing Net Income by Invested Equity.

"**Affiliated Utility**" means each Utility for which BHUH acts as agent when buying Gas, namely Black Hills Power, Inc., Black Hills Northwest Wyoming Gas Utility Company, LLC, and Cheyenne Light, Fuel and Power Company.

"**Allowed Cost of Debt**" means the weighted average of the following: (i) the cost of long-term debt, if any, of COSGCO, and (ii) for the balance of forty percent (40%) of Investment Base, the weighted average of Black Hills Corporation's cost of long-term debt.

"**Allowed ROE**" means the average of the annual return on equity in all gas and electric utility rate cases for the calendar year, as subsequently reported by Regulatory Research Associates, *provided* that if less than twenty (20) gas and electric utility rate cases are reported for a calendar year, then Allowed ROE for that calendar year shall equal the average of (i) the average of the annual return on equity in all gas and electric utility rate cases for that calendar year, and (ii) the average of the annual return on equity in all gas and electric utility rate cases for the prior calendar year, all as reported by Regulatory Research Associates.

"**BHUH**" is defined in the introductory paragraph of this COSG Agreement.

"**COSG Agreement**" is defined in the introductory paragraph of this COSG Agreement.

"**COSG Cost Forecast**" is defined in Section 4.2(xiv).

"**COSGCO**" means wholly-owned subsidiary of BHUH that is operated for the purpose of implementing this COSG Agreement.

"**COSGCO Gas**" means COSGCO's Gas produced from the Properties.

"**COSGCO OpEx**" means COSGCO's expenses, calculated in accordance with GAAP, including without limitation the costs of management, attorneys, consultants, operating expenses, fees and charges paid to the operator, gathering, transportation, compression, line loss and unaccounted for gas costs, minimum daily quantity penalties, processing, marketing, royalties, depreciation, amortization and depletion (including accruals for future plugging, abandonment, and other anticipated asset retirement expenses calculated using engineering estimates and GAAP), Taxes, and direct charges from BHUH and its affiliates for time spent providing services for the benefit of COSGCO, *provided* that (i) COSGCO OpEx shall include BHUH's costs for the Monitors, (ii) depletion shall be calculated on a unit of production basis using the "full cost method" but limited to proved developed producing reserves, (iii) depletion shall include the costs to identify and evaluate potential properties that do not become Properties under this COSG Agreement, and (iv) COSGCO's actual interest expense shall be replaced with an amount equal to the Allowed Cost of Debt multiplied by Investment Base multiplied by forty percent (40%).

"**COSGCO Revenue**" means the net proceeds received by COSGCO from the sale of Hydrocarbons produced from the Properties.

"**Cost of Capital**" shall be an imputed weighted average consisting of forty percent (40%) Allowed Cost of Debt and sixty percent (60%) Allowed ROE.

"**Drilling Plan**" means the plan approved under Section 4.3 or Section 4.4, as applicable, to drill wells on a Property.

"**Drilling Plan Criterion**" means the criterion set forth in attached Exhibit B.

"**Drilling Plan II**" means a plan approved under Section 4.5 to drill wells on a Property after the twentieth (20th) anniversary of the First Acquisition Date.

"**Dth**" means dekatherm.

"**Early Termination Amount**" is defined in Section 6.4.

"**Effective Date**" means the date the condition subsequent in Section 8.1 is satisfied or, if not satisfied, the date this COSG Agreement is deemed effective pursuant to Section 8.1.

"**First Acquisition Date**" means the date the first Property acquisition closes.

"**Five-Year Anniversary**" means the fifth (5th), tenth (10th), and fifteenth (15th) anniversaries of the First Acquisition Date.

"**Force Majeure Event**" is defined in Section 9.4.

"**Forecast Period**" means the six (6) months in each calendar year from (i) January 1 to June 30, and (ii) July 1 to December 31.

"**GAAP**" means generally accepted accounting principles as recognized by the American Institute of Certified Public Accountants, as in effect from time to time, consistently applied and maintained on a consistent basis by BHUH throughout the applicable period and consistent with BHUH's prior financial practice.

"**Gas**" means any mixture of gaseous Hydrocarbons or of Hydrocarbons and other gasses, in a gaseous state, consisting primarily of methane, and excluding condensate and NGLs.

"**Hedge Cost**" is defined in Section 5.1(ii).

"**Hedge Credit**" is defined in Section 5.1(i).

"**Hedge Forecast Amounts**" is defined in Section 5.2.

"**Hedge Quantity**" is defined in Section 3.3.

"**Hedge Target**" means, for each Utility, fifty percent (50%) of its anticipated annual natural gas demand, *provided* that anticipated annual natural gas demand shall be (i) for a gas utility, its weather-normalized annual firm demand, (ii) for Black Hills Power, Inc., 600,000 Dths per year, which shall increase annually by 1.25%, (iii) for Black Hills/Colorado Electric Utility Company, LP, 10,500,000 Dth per year, which shall increase annually by 0.87%, and (iv) for Cheyenne Light, Fuel and Power Company (elec.), 400,000 Dths per year, which shall increase annually by 1.25%.

"**Hedge Year-End Amount**" is defined in Section 5.3.

"**Hydrocarbon Monitor**" means an independent third party with substantial experience evaluating oil and gas transactions.

"**Hydrocarbons**" means hydrocarbons, in either liquid or gaseous form, including Gas, condensate, NGLs, and oil.

"**Invested Equity**" means the product of Investment Base and sixty percent (60%).

"**Investment Base**" means the capitalized costs to identify, acquire and develop the Properties, including lease acquisition costs, capital investments, drilling, completion and equipping costs, and compression and gas gathering and processing capital costs, reduced by accumulated depletion, depreciation, amortization, and net accumulated deferred taxes, *provided* that (i) for purposes of calculating Investment Base in connection with Hedge Forecast Amounts under Section 5.2 and the Hedge Year-End Amount under Section 5.3, if there are no capitalized costs at the beginning of the relevant period, then the period for calculating Investment Base shall commence when capitalized costs are incurred,[1] and (ii) the capitalized costs to identify and acquire a Property shall be allocated to proved developed producing reserves at the time of the acquisition and to proved undeveloped reserves developed under the Drilling Plan for the Property prior to the Five-Year Anniversary immediately following the Property's acquisition.

"**Long-Term Market Price Forecast**" shall mean the following, in nominal dollars:

(i) for Gas, the average of the most recent long-term "base case" Gas price forecast published by Ventyx and the long-term "reference case" Gas price forecast published by the U.S. Energy Information Administration in its most recent "Annual Energy Outlook";

(ii) for NGLs, a commercially reasonable price forecast based on available public information;

(iii) for all other Hydrocarbons (excluding Gas and NGLs), the average of the most recent long-term "base case" crude oil price forecast published by Ventyx and the long-term "reference case" crude oil price forecast published by the U.S. Energy Information Administration in its most recent "Annual Energy Outlook,"

Provided that (a) the locational basis of each forecast shall be adjusted to correspond with the respective delivery point for COSGCO's Hydrocarbons, (b) inflation shall be forecast using the inflation percentage used by the U.S. Energy Information Administration in its most recent "Annual Energy Outlook," and (c) if a forecast does not extend through the end of the period covered by the applicable Reserve Report, then the forecast price for the last year of that forecast shall be escalated annually by the aforementioned inflation percentage.

"**Monitors**" means the Accounting Monitor and the Hydrocarbon Monitor.

"**Net Cap. Costs**" is defined in Section 6.4.

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[1] For example only, if COSGCO paid $50 million to acquire its first Property on March 15, then Investment Base for purposes of calculating the Hedge Year-End Amount pursuant to Section 5.3 for that calendar year would be the average of COSGCO's capitalized costs on March 15, March 31, and the end of each subsequent calendar month in that calendar year.

“**Net Income**” means COSGCO Revenue minus COSGCO OpEx, calculated in accordance with GAAP.

“**Net Op. Costs**” is defined in Section 6.4.

“**NGLs**” means those liquid Hydrocarbons, excluding condensate, obtained by processing gas.

“**Non-Participating Utility**” means, with respect to any Property, a Utility (i) whose PUC determines pursuant to Section 4.3 that the Property’s proposed acquisition does not satisfy the Acquisition Criteria, (ii) whose PUC determines pursuant to Section 4.4 that an updated Drilling Plan does not satisfy the Drilling Plan Criterion, or (iii) that either determines it does not want to participate in further development of the Properties after the twentieth (20th) anniversary of the First Acquisition Date or whose PUC determines pursuant to Section 4.5 that a Drilling Plan II does not satisfy the Drilling Plan Criterion.

“**Party**” and “**Parties**” are defined in the introductory paragraph of this COSG Agreement.

“**Percentage Share**” means, for each Utility, its then-applicable Hedge Target divided by the Utilities’ then-applicable aggregate Hedge Target.

“**PGA/GCA/ECA Filing**” means, with respect to each Utility, its purchased gas adjustment, gas cost adjustment or energy cost adjustment filing.

“**Property**” and “**Properties**” means any property approved pursuant to Section 4.3 in which COSGCO acquires interests, or the right to earn interests through drilling.

“**Proposed Drilling Program**” is defined in Section 4.2(ii).

“**PUC**” means the Colorado Public Utilities Commission with respect to Black Hills/Colorado Gas Utility Company, LP and Black Hills/Colorado Electric Utility Company, LP; Iowa Utilities Board with respect to Black Hills/Iowa Gas Utility Company, LLC; Kansas Corporation Commission with respect to Black Hills/Kansas Gas Utility Company, LLC; Nebraska Public Service Commission with respect to Black Hills/Nebraska Gas Utility Company, LLC; South Dakota Public Utilities Commission with respect to Black Hills Power, Inc.; and Wyoming Public Service Commission with respect to Black Hills Power, Inc., Cheyenne Light, Fuel and Power Company and Black Hills Northwest Wyoming Gas Utility Company, LLC.

“**Reserve Report**” is defined in Section 4.2(xii).

“**T**” means the highest marginal statutory federal income tax rate applicable to corporations combined with applicable state statutory income tax rates, in effect for the year in question.

“**Taxes**” means all taxes, charges, fees, duties, levies, or other assessments, however, denominated, imposed by any federal, state, or local government or any agency or political subdivision of any such government, including, without limiting the generality of the foregoing, income or profit, gross receipts, net proceeds, ad valorem, real and personal property (tangible and intangible), possessory interest, sales, use, franchise, excise, value added, stamp, leasing, lease, business license, user, transfer, fuel, environmental, excess profits, occupational, interest equalization, windfall profits, severance and employees' income withholding, workers' compensation, Pension Benefits Guaranty Corporation premiums, unemployment and Social Security taxes, and other obligations of the same or of a similar nature to any of the foregoing (all including any interest, penalties or additions to tax related thereto imposed by any taxing authority).

"**Term**" is defined in Section 6.1.

"**Utility**" and "**Utilities**" are defined in the introductory paragraph of this COSG Agreement, *provided* that notwithstanding anything to the contrary (i) with respect to Black Hills Power, Inc., this COSG Agreement only pertains to its utility operations in South Dakota and Wyoming, (ii) the gas and electric utility operations of Cheyenne Light, Fuel and Power Company shall each be considered a separate Utility, and (iii) Utility and Utilities does not include any Utility whose PUC has not approved this COSG Agreement in full and without modification in an order satisfactory to BHUH and the Utility.

ARTICLE 2 - MONITORS

Section 2.1 Accounting Monitor; Hydrocarbon Monitor. BHUH shall retain the Accounting Monitor and Hydrocarbon Monitor, each mutually agreeable to BHUH and the PUCs. The Accounting Monitor shall prepare assurance reports regarding the accuracy of BHUH's calculations under this COSG Agreement pursuant to Section 5.5. The Hydrocarbon Monitor shall assess the following: (i) whether each proposed acquisition satisfies the Acquisition Criteria pursuant to Section 4.3; (ii) whether each Drilling Plan and Drilling Plan II satisfies the Drilling Plan Criterion pursuant to Section 4.4 and Section 4.5, respectively; and (iii) whether COSGCO's reserves in the annual report described in Section 5.5 were calculated in accordance with standard industry practice.

Section 2.2 Communications. The Monitors shall be available to BHUH, the Utilities, and the PUCs. BHUH, the Utilities, and the PUCs shall be given advance notice, reasonable under the circumstances, of and afforded the opportunity to join any discussions with the Monitors and shall be copied on all written communications to/from the Monitors.

Section 2.3 Records; Confidentiality. BHUH and COSGCO's books, accounts, and records regarding the Properties and this COSG Agreement shall be available to the Monitors, each Utility, and each PUC for inspection at any reasonable time with prior notice. The Monitors and the PUCs shall each not disclose to any third party any information or other communications to or from BHUH, COSGCO, one or both of the Monitors, or any PUC(s) without the prior written consent of BHUH and the PUCs.

ARTICLE 3 - GAS PURCHASE

Section 3.1 Gas Purchase. In accordance with BHUH's role as purchaser of Gas for, or on behalf of, each Utility pursuant to prior PUC precedent and rules, during the Term each

Utility shall continue to reimburse BHUH for the costs BHUH incurs purchasing Gas on the market for, or on behalf of, the Utility, including the Utility's Hedge Quantity, *provided* that BHUH shall not purchase, directly or indirectly, Gas produced from the Properties unless mutually agreeable to all Parties pursuant to a written addendum to this COSG Agreement executed by all Parties. In addition, during the Term each Utility shall receive any credits and incur any costs required under ARTICLE 5.

Section 3.2 Hedge Target. On or before November 1 of each year, each Utility shall provide BHUH with its Hedge Target for each remaining year in the Term. Each Utility's Hedge Target and Percentage Share for 2016 are set forth in attached Exhibit C. Notwithstanding anything to the contrary in this COSG Agreement, a Utility's Hedge Target shall not decrease in any year unless such decrease can be accommodated pursuant to Section 3.4.

Section 3.3 Hedge Quantity. Each Utility's "**Hedge Quantity**" in each calendar month during the Term shall be a quantity of Gas equal to the Utility's Percentage Share multiplied by the quantity of COSGCO Gas produced during that calendar month, *provided* that the Utility's Hedge Quantity shall not exceed its Hedge Target unless (i) the Utility experiences a decrease in its Hedge Target as set forth in Section 3.4, in which case its Hedge Quantity may temporarily exceed its Hedge Target while BHUH seeks to accommodate such decrease pursuant to Section 3.4, or (ii) the Properties produce more Gas than anticipated by the Drilling Plans, in which case the Utility's Hedge Quantity may temporarily exceed its Hedge Target while one or more of the Drilling Plans is adjusted to decrease production from the Properties.

Section 3.4 Decrease to a Utility's Hedge Target. If a Utility experiences, after adjusting for weather normalization, a ten percent (10%) or more decrease to its anticipated natural gas demand that was used in calculating its Hedge Target and the Utility reasonably expects such reduced demand will continue, then BHUH shall take all reasonable steps to accommodate such decrease as soon as reasonably practicable, including the following:

(i) Adjusting the Drilling Plan(s) as soon as reasonably practicable to decrease production from the Properties to account for such decrease; and/or

(ii) Decreasing the Utility's Percentage Share to account for such decrease and increasing the other Utilities' Percentage Shares but only (i) with each of the other Utilities' prior consent, and (ii) to the extent that each of the other Utilities' resulting Hedge Quantity does not exceed its Hedge Target,

Provided that until BHUH is able to accommodate such a change, this COSG Agreement shall continue to apply to the Utility's full Hedge Quantity before such reduction in demand and the Utility shall accept any credits and incur any costs required under ARTICLE 5 calculated using the Utility's full Hedge Quantity before such reduction in demand.

ARTICLE 4 - PROPERTIES

Section 4.1 Property Acquisition and Development. For the twenty (20) years following the First Acquisition Date, BHUH shall cause COSGCO to acquire interests, or the right to earn interests through drilling, in one or more properties and to develop each Property in accordance with its Drilling Plan to increase and maintain COSGCO Gas production up to the

Utilities' aggregate Hedge Target subject to the processes and PUC oversight described in this ARTICLE 4 and to the extent commercially feasible. BHUH shall cause COSGCO to endeavor to increase COSGCO Gas production up to the Utilities' aggregate Hedge Target as soon as practical after the Effective Date and then to maintain COSGCO Gas production at the Utilities' aggregate Hedge Target until the twentieth (20th) anniversary of the First Acquisition Date, *provided* that, notwithstanding anything to the contrary in this COSG Agreement, this obligation shall be subject to the following:

(i) BHUH's determination, in its sole discretion, regarding the maximum capital expenditure to be made with respect to any proposed acquisition, the availability of property(ies) that satisfy the Acquisition Criteria, and the annual schedule for capital expenditures by COSGCO on acquisition and development; and

(ii) The processes and PUC oversight described this ARTICLE 4.

BHUH shall cause COSGCO to limit its business activities to identifying and evaluating potential Property acquisitions; acquiring, developing and operating the Properties; marketing and selling Hydrocarbons produced from the Properties; and conducting other activities related to operating the Properties. For the avoidance of doubt, except as expressly provided this ARTICLE 4, decisions regarding the development and operation of the Properties, including without limitation well locations, shall be made solely by COSGCO as directed by BHUH.

Section 4.2 <u>Acquisition Information</u>. BHUH shall provide the Hydrocarbon Monitor with the following information concerning each proposed COSGCO acquisition that BHUH wants to become a Property under this COSG Agreement:

(i) Price and terms of the proposed acquisition by COSGCO, including any joint operating agreement(s) to which COSGCO would become bound;

(ii) A plan to drill wells on a schedule intended, to the extent commercially feasible, to develop and maintain reasonably stable production from the property for a period of at least five (5) years ("**Proposed Drilling Program**"), *provided* that proposed acquisitions that are fully developed or that have a Proposed Drilling Program less than five (5) years in length can become Properties under this COSG Agreement if the Acquisition Criteria are satisfied;

(iii) Gross working interest and net revenue interest to be acquired or earned by COSGCO in existing wells, if any, and wells to be developed through execution of the Proposed Drilling Program;

(iv) Historical production from and remaining reserves of existing wells;

(v) Forecast reserves for wells to be developed through execution of the Proposed Drilling Program;

(vi) Forecast production for existing wells and wells to be developed through execution of the Proposed Drilling Program, showing aggregate production per year;

(vii) A summary of geologic and geophysical data;

(viii) Historical exploration, drilling and operating costs (including gathering and processing costs) of existing wells;

(ix) Forecast operating costs (including gathering and processing costs) of existing wells;

(x) Forecast capital and operating costs (including gathering and processing costs) for future wells;

(xi) Estimated production tax for existing wells and to be developed through execution of the Proposed Drilling Program;

(xii) A third-party engineering report (the "**Reserve Report**") assessing, using the then-current Long-Term Market Price Forecast, (1) the proved reserves (including without limitation proved undeveloped reserves) and any probable reserves to be developed through execution of the Proposed Drilling Program, (2) the forecast production for existing wells and wells to be developed through execution of the Proposed Drilling Program, and (3) the estimated cost to develop the proved reserves through execution of the Proposed Drilling Program and the projected costs per Dth for existing and to-be-developed reserves as produced;

(xiii) Then-current Long-Term Market Price Forecast;

(xiv) The "**COSG Cost Forecast**," which means, for each year of the Reserve Report, the forecast Gas cost calculated in nominal dollars pursuant to the following formula:

*COSG Cost Forecast = [COSGCO OpEx + (Cost of Capital * Investment Base)] - Liquids Revenue*

Provided that (i) "Liquids Revenue" means the money COSGCO is anticipated to receive from the sale of all Hydrocarbons other than Gas, and (ii) the then-current Long-Term Market Price Forecast and the Proposed Drilling Program, Drilling Plan or Drilling Plan II, as applicable, shall be used in calculating the COSG Cost Forecast;

(xv) Description of any material lease, title, and legal issues known by COSGCO concerning the proposed acquisition;

(xvi) A consultant's report describing environmental and regulatory permits and permit compliance for the existing wells and infrastructure related to the proposed acquisition; and

(xvii) Other data as BHUH may deem to be appropriate to an evaluation of the proposed acquisition.

Section 4.3 Acquisition Oversight. Within ten (10) calendar days following receipt of all the information described in Section 4.2, the Hydrocarbon Monitor shall issue a written report to BHUH, the Utilities, and the PUCs regarding whether the proposed acquisition satisfies the Acquisition Criteria.

If the Hydrocarbon Monitor determines that the proposed acquisition does not satisfy the Acquisition Criteria, then the proposed acquisition shall not be deemed a Property under this COSG Agreement, *provided* such a determination shall not preclude BHUH from subsequently seeking approval under this Section 4.3 for the same proposed acquisition.

If the Hydrocarbon Monitor determines that the proposed acquisition satisfies the Acquisition Criteria and no PUC reaches a contrary determination in a formal, adjudicative proceeding concluded within sixty (60) calendar days after receipt of the Hydrocarbon Monitor's report, then the following shall occur upon the closing of the acquisition: the proposed acquisition shall be deemed a Property under the terms of this COSG Agreement, the Proposed Drilling Program shall become the Drilling Plan for the Property, and BHUH shall cause COSGCO to develop the Property until the next Five-Year Anniversary in accordance with the Drilling Plan, unless adjusted pursuant to Section 3.3 or Section 3.4, and without further PUC action.

If the Hydrocarbon Monitor determines that the proposed acquisition satisfies the Acquisition Criteria but one or more PUCs reach a contrary determination in a formal, adjudicative proceeding concluded within sixty (60) calendar days after receipt of the Hydrocarbon Monitor's report, then, if BHUH directs COSGCO to move forward with the proposed acquisition, the following shall occur upon the closing of the acquisition:

(i) The proposed acquisition shall be deemed a Property under the terms of this COSG Agreement, the Proposed Drilling Program shall become the Drilling Plan for the Property, and BHUH shall cause COSGCO to develop the Property until the next Five-Year Anniversary in accordance with the Drilling Plan, unless adjusted pursuant to Section 3.3 or Section 3.4, and without further PUC action, *provided* that if BHUH determines that the Proposed Drilling Program needs to be modified to account for the non-participation of a Non-Participating Utility in the Property, then (1) BHUH shall first make such modifications to the Proposed Drilling Program, and (2) the proposed acquisition shall not become a Property unless the Hydrocarbon Monitor issues a written report concluding that the proposed acquisition (with the modified Proposed Drilling Program) satisfies the Acquisition Criteria, in which case the modified Proposed Drilling Program shall become the Drilling Plan for the Property, and BHUH shall cause COSGCO to develop the Property until the next Five-Year Anniversary in accordance with that Drilling Plan, unless adjusted pursuant to Section 3.3 or Section 3.4, and without further PUC action;

(ii) Any capital and operating expenses incurred by COSGCO to acquire, develop and operate the Property and any production from the Property shall not be used when calculating the Hedge Quantity and any credits and costs under ARTICLE 5 for a Non-Participating Utility, and a Non-Participating Utility shall neither receive any credits nor incur any costs under ARTICLE 5 with respect to the Property; and

(iii) A Non-Participating Utility and its PUC shall have no rights or obligations with respect to the Property under Section 4.4.

Section 4.4 Five-Year Drilling Plan Review. No later than seventy (70) calendar days before each Five-Year Anniversary, BHUH shall provide the Hydrocarbon Monitor with the information described in Section 4.2(iii)-(xiv) for each Property, the Utilities' aggregate Hedge Target for each remaining year in the twenty (20) year period following the First Acquisition Date, and an updated Drilling Plan for each Property for such period. BHUH may seek approval for an updated Drilling Plan for any Property at any other time by providing the Hydrocarbon Monitor with the information described in Section 4.2(iii)-(xiv) for the Property, the Utilities' aggregate Hedge Target for each remaining year in the twenty (20) year period following the First Acquisition Date, and an updated Drilling Plan the Property for such period.

Within ten (10) calendar days following receipt of said information, the Hydrocarbon Monitor shall issue a written report to BHUH, the Utilities, and the PUCs regarding whether the updated Drilling Plan(s) satisfies the Drilling Plan Criterion.

If the Hydrocarbon Monitor determines that an updated Drilling Plan does not satisfy the Drilling Plan Criterion, then BHUH shall cause COSGCO to not participate in the drilling of any new production wells on the Property until an updated Drilling Plan has been approved under this Section 4.4.

If the Hydrocarbon Monitor determines that an updated Drilling Plan satisfies the Drilling Plan Criterion and no PUC reaches a contrary determination in a formal, adjudicative proceeding concluded within sixty (60) calendar days after receipt of the Hydrocarbon Monitor's report, then BHUH shall cause COSGCO to develop the Property until the next Five-Year Anniversary in accordance with the Drilling Plan, unless adjusted pursuant to Section 3.3 or Section 3.4, and without further PUC action.

If the Hydrocarbon Monitor determines that the updated Drilling Plan satisfies the Drilling Plan Criterion but one or more PUCs reach a contrary determination in a formal, adjudicative proceeding concluded within sixty (60) calendar days after receipt of the Hydrocarbon Monitor's report, then the following shall occur:

(i) BHUH shall cause COSGCO to develop the Property until the next Five-Year Anniversary in accordance with the Drilling Plan, unless adjusted pursuant to Section 3.3 or Section 3.4, and without further PUC action, *provided* that if BHUH determines that the Drilling Plan needs to be modified to account for the non-participation of a Non-Participating Utility in the updated Drilling Plan, then (1) BHUH shall first make such modifications to the updated Drilling Plan, and (2) BHUH shall cause COSGCO to not develop the Property in accordance with that modified Drilling Plan unless the Hydrocarbon Monitor issues a written report concluding that the modified Drilling Plan satisfies the Drilling Plan Criterion, in which case BHUH shall cause COSGCO to develop the Property until the next Five-Year Anniversary in accordance with that Drilling Plan, unless adjusted pursuant to Section 3.3 or Section 3.4, and without further PUC action;

(ii) Any capital and operating expenses incurred by COSGCO to develop and operate additional wells on the Property after the effective date of the updated Drilling Plan and any production from such wells shall not be used when calculating the Hedge Quantity and the credits and costs under ARTICLE 5 for a Non-Participating Utility; and

(iii) A Non-Participating Utility and its PUC shall have no further rights or obligations with respect to the Property under this Section 4.4.

Section 4.5 Drilling Plan II. Notwithstanding anything to the contrary in this COSG Agreement, following the twentieth (20th) anniversary of the First Acquisition Date COSGCO shall not continue drilling new production wells on the Properties except as provided in this Section 4.5, *provided* that BHUH shall cause COSGCO to continue producing Hydrocarbons from the wells COSGCO acquired or drilled prior to such twentieth (20th) anniversary and each Utility shall continue to receive any credits and incur any costs required under ARTICLE 5 until the expiration or early termination of this COSG Agreement. If BHUH anticipates that opportunities to further develop one or more of the Properties may exist on the twentieth (20th) anniversary of the First Acquisition Date and one or more Utilities (but with respect to any Property with further development opportunities, excluding any Non-Participating Utility) desire for BHUH to cause COSGCO to participate in such opportunities, then BHUH shall provide the Hydrocarbon Monitor with Drilling Plan II for each such Property and the information described in Section 4.2(iii)-(xiv) for each such Property no later than seventy (70) calendar days before the twentieth (20th) anniversary of the First Acquisition Date. Drilling Plan II(s) shall then be subject to the review process, criterion, and other terms set forth in the second through fifth paragraphs of Section 4.4.

Section 4.6 Opportunity for Non-Participating Utilities to Participate in Subsequent Drilling Plans. Notwithstanding anything to the contrary in Section 4.3 and Section 4.4, BHUH may propose that a Non-Participating Utility participate in new production wells to be drilled pursuant to an updated Drilling Plan for the Property in which the Non-Participating Utility is not participating, *provided* that in such situation, the following provisions shall supplement the review of the updated Drilling Plan under Section 4.4:

(i) In addition to providing the information identified in Section 4.4, BHUH shall provide the Hydrocarbon Monitor with information describing why and/or how the proposed participation of the Non-Participating Utility in such updated Drilling Plan is not anticipated to be detrimental to the other Utilities participating in the Property;

(ii) If the Hydrocarbon Monitor, in addition to determining that the updated Drilling Plan satisfies the Drilling Plan Criterion, concurs with BHUH in the written report called for under Section 4.4, then the updated Drilling Plan shall be subject to the fourth and fifth paragraphs of Section 4.4 and

1) If either the PUC for the Non-Participating Utility reaches a contrary determination in a formal, adjudicative proceeding concluded within sixty (60) calendar days after receipt of the Hydrocarbon Monitor's report or one or more of the PUCs for the other Utilities participating in the Property objects within such sixty (60) calendar day period to the proposed participation of the

Non-Participating Utility, then the Non-Participating Utility shall remain a Non-Participating Utility with respect to new production wells drilled pursuant to the updated Drilling Plan; but

2) If the PUC for the Non-Participating Utility does not reach a contrary determination in a formal, adjudicative proceeding concluded with such sixty (60) calendar day period and none of the PUCs for the other Utilities participating in the Property objects within such sixty (60) calendar day period, then the Non-Participating Utility shall participate in new production wells drilled pursuant to the updated Drilling Plan, any capital and operating expenses incurred by COSGCO to develop and operate additional wells on the Property after the effective date of the updated Drilling Plan and any production from such wells shall be used when calculating the Hedge Quantity and the credits and costs under ARTICLE 5 for the Non-Participating Utility, and the Non-Participating Utility and its PUC shall have further rights and obligations with respect to the Property under Section 4.4.

ARTICLE 5 - HEDGE SETTLEMENT

Section 5.1 Hedge Settlement. After the end of each calendar month, BHUH shall calculate a Hedge Credit pursuant to Section 5.1(i) or a Hedge Cost pursuant to Section 5.1(ii), as applicable.[2]

(i) Hedge Credit. If Actual ROE for a calendar month is more than one hundred (100) basis points greater than Allowed ROE, then a "**Hedge Credit**" for such calendar month shall be calculated pursuant to the following formula:

$$\textit{Hedge Credit} = -\,(\textit{Net Income} - ((\textit{Allowed ROE} + 100 \textit{ basis points}) * \textit{Invested Equity})) * \frac{1}{(1 - T)}$$

Each Utility's Percentage Share of the Hedge Credit shall be credited against the amount the Utility owes to BHUH for all Gas that BHUH purchased on the market for, or on behalf of, the Utility in that calendar month, *provided* that BHUH shall instead pay each Affiliated Utility its Percentage Share of the Hedge Credit within thirty (30) days following the end of that calendar month.

(ii) Hedge Cost. If Actual ROE for a calendar month is more than one hundred (100) basis points less than Allowed ROE, then a "**Hedge Cost**" for such calendar month shall be calculated pursuant to the following formula:

$$\textit{Hedge Cost} = -\,(\textit{Net Income} - ((\textit{Allowed ROE} - 100 \textit{ basis points}) * \textit{Invested Equity})) * \frac{1}{(1 - T)}$$

[2] Sample calculations of a Hedge Credit and Hedge Cost are shown in attached Exhibit D for illustrative purposes only.

Each Utility's Percentage Share of the Hedge Cost shall be included as a cost in the amount the Utility owes to BHUH for all Gas that BHUH purchased on the market for, or on behalf of, the Utility in that calendar month, *provided* that each Affiliated Utility shall instead pay BHUH its Percentage Share of the Hedge Cost within thirty (30) days following the end of that calendar month.

Section 5.2 Utility Hedge Forecast. To establish reasonably accurate rates in advance for the Utilities' customers, BHUH shall do the following before the start of each Forecast Period: (i) forecast Actual ROE for each calendar month of that Forecast Period using the average of the forecast Investment Base for each calendar month in that Forecast Period; and (ii) forecast a Hedge Credit calculated pursuant to Section 5.1(i) or a Hedge Cost calculated pursuant to Section 5.1(ii), as applicable, for each calendar month of that Forecast Period (collectively, the "**Hedge Forecast Amounts**") using the most recent Allowed ROE. To help minimize annual reconciliations under Section 5.3, the Hedge Forecast Amounts may also include an adjustment to reflect anticipated differences between the Hedge Forecast Amounts for an unreconciled Forecast Period(s) and COSGCO's actual results to date in that calendar year. Each Utility shall incorporate its Percentage Share of the Hedge Forecast Amounts into its rates for the Forecast Period in accordance with its approved tariffs and adjustment mechanisms.

Notwithstanding anything to the contrary in the immediately preceding paragraph, (i) until the First Acquisition Date, the Hedge Forecast Amounts shall be zero, and (ii) concurrent with the closing of the acquisition of any Property, BHUH shall update the Hedge Forecast Amounts for the remainder of the then-current Forecast Period and each Utility shall incorporate its Percentage Share of the updated Hedge Forecast Amounts into its rates for the Forecast Period in accordance with its approved tariffs and adjustment mechanisms.

Section 5.3 Annual Hedge Reconciliation. To ensure that the Utilities and their customers are receiving the actual benefits or paying the actual costs of this COSG Agreement and to incorporate the actual Allowed ROE for each calendar year, BHUH shall do the following no later than ninety (90) calendar days after the end of each calendar year: (i) calculate Actual ROE for that prior calendar year; (ii) calculate the actual Hedge Credit or the actual Hedge Cost, as applicable, for that prior calendar year (the "**Hedge Year-End Amount**") using the Allowed ROE for that prior calendar year and the trailing thirteen (13) calendar month average of Investment Base; (iii) reconcile the Hedge Year-End Amount with the aggregate Hedge Credits and Hedge Costs credited or billed to each Utility pursuant to Section 5.1 for that prior calendar year, including crediting each Utility its Percentage Share of any additional Hedge Credit amount and billing each Utility its Percentage Share of any additional Hedge Cost amounts consistent with Section 5.1; and (iv) reconcile the Hedge Year-End Amount with the Hedge Forecast Amounts calculated pursuant to Section 5.2 for that prior calendar year with each Utility then incorporating its Percentage Share of any additional Hedge Credit or Hedge Cost amounts into its rates for the next Forecast Period in accordance with its approved tariffs and adjustment mechanisms.

Section 5.4 Reporting. BHUH shall promptly report to each Utility the calculations of Hedge Forecast Amounts and Percentage Share, and each Utility shall file such information with its PUC as part of its next PGA/GCA/ECA Filing.

Section 5.5 Annual Report. After the Hedge Year-End Amount has been calculated for a calendar year, BHUH shall promptly prepare an annual report setting forth the following:

(i) For that calendar year, each Utility's Hedge Target and Percentage Share, Actual ROE, Allowed ROE, Hedge Forecast Amounts, Hedge Year-End Amount, and COSGCO's financial statements;

(ii) For each calendar month in that calendar year, the volume of Gas, NGLs and other Hydrocarbons that COSGCO sold; and

(iii) COSGCO's reserves as of the end of that calendar year.

The Hydrocarbon Monitor shall assess whether COSGCO's reported reserves were calculated in accordance with standard industry practice and shall document its findings in writing. The Accounting Monitor shall prepare an assurance report regarding the accuracy of BHUH's calculations under this COSG Agreement during that calendar year. BHUH shall promptly provide the annual report, the Hydrocarbon Monitor's findings, and the Accounting Monitor's assurance report to each Utility, and each Utility shall file such information with its PUC as part of its next PGA/GCA/ECA Filing.

If the Hydrocarbon Monitor concludes that COSGCO's reported reserves were not calculated in accordance with standard industry practice and BHUH and the Hydrocarbon Monitor cannot agree on the appropriate change, then a third-party reservoir engineer (mutually agreeable to BHUH and the Hydrocarbon Monitor) shall be retained to resolve the difference in opinion. If the Accounting Monitor concludes that BHUH's calculations were not accurate and BHUH and the Accounting Monitor cannot agree on the appropriate change, then each Utility shall refer the Accounting Monitor's proposed adjustment to its PUC for resolution.

Section 5.6 Indirect Costs. COSGCO shall not be included in BHUH's and Black Hills Service Company's respective "Cost Allocation Manual, and no indirect costs shall be allocated to BHUH's performance of this COSG Agreement or included in the calculations under ARTICLE 5. Direct charges from BHUH and its affiliates for time spent providing services for the benefit of COSGCO shall be included in COSGCO OpEx.

Section 5.7 Reserve Pool. For accounting purposes, COSGCO shall maintain its own reserve pools separate from Black Hills Exploration and Production, Inc., such reserve pools shall be limited to proved developed producing reserves, and in accordance with SEC Regulation S-X Rule 4-10, Investment Base shall not be subject to the cost center ceilings test.

ARTICLE 6 - TERM AND TERMINATION

Section 6.1 Term. This COSG Agreement shall be effective from the Effective Date and shall continue in full force and effect for each Utility until the existing wells on each Property at the time of acquisition by COSGCO and the wells BHUH causes COSGCO to drill on the Properties pursuant to the Drilling Plan(s) and Drilling Plan II(s) (but excluding any wells for which the Utility is a Non-Participating Utility) have been plugged and abandoned and the portions of the Properties affected by such wells reclaimed in accordance with applicable law ("**Term**"), *provided* that each Utility's rights and obligations under this COSG Agreement may be terminated early as provided below in this ARTICLE 6. Applicable provisions of this COSG Agreement shall continue in effect after expiration of this COSG Agreement or early termination to the extent necessary to (i) provide for final billings, payments and adjustments, and (ii) enforce or complete the duties, obligations or responsibilities of the Parties.

Section 6.2 Early Termination by Utility. If a Utility is ordered by its PUC to terminate its rights and obligations under this COSG Agreement before the end of the Term, the Utility shall provide notice to BHUH. Upon receipt of a termination notice, BHUH shall cause COSGCO to sell, as soon as practical, an interest in the Properties (but excluding any Property and/or wells for which the terminating Utility is a Non-Participating Utility) that is functionally equivalent to the terminating Utility's Percentage Share for the calendar year in which such sale(s) closes, *provided* that no sale(s) shall occur until the remaining Utilities have approved the interest to be sold and the terminating Utility has approved the sale price(s). Following the sale, Investment Base shall be adjusted to reflect such sale(s). The termination of the terminating Utility's rights and obligations under this COSG Agreement shall be effective at the end of the calendar month in which the sale (or, if COSGCO sells such interest through multiple transactions, the last sale) closes, *provided* that (i) any amount due under Section 6.4 and any reconciliation amount owed under Section 5.3 shall be promptly paid, (ii) until such sale closes, the terminating Utility shall continue to receive any credits and incur any costs required under ARTICLE 5, and (iii) if no third party(ies) is willing to purchase such interest, the terminating Utility shall remain bound to this COSG Agreement until the end of the Term.

Section 6.3 Early Termination by BHUH. If BHUH determines, in its sole discretion, that any Non-Participating Utilities and/or terminating Utilities under Section 6.2 make continued performance of this COSG Agreement infeasible, BHUH may elect to terminate this COSG Agreement by providing notice to the Utilities. If BHUH elects to terminate, BHUH shall then cause COSGCO to sell, as soon as practical, all of its interest in the Properties, *provided* that no sale(s) shall occur until the Utilities have approved the sale price(s). The termination of the rights and obligations under this COSG Agreement shall be effective at the end of the calendar month in which the sale (or, if COSGCO sells its interests in the Properties through multiple transactions, the last sale) closes, *provided* that (i) any amount due under Section 6.4 and any reconciliation amount owed under Section 5.3 shall be promptly paid, (ii) until such sale closes, the Utilities shall continue to receive any credits and incur any costs required under ARTICLE 5, and (iii) if no third party(ies) is willing to purchase COSGCO's interests in the Properties, the Parties shall remain bound to this COSG Agreement until the end of the Term.

Section 6.4 Sale Proceeds. If the proceeds from a sale(s) under Section 6.2 or Section 6.3 (after deducting the transaction costs and Taxes incurred by BHUH or COSGCO in connection with such sale(s)) are greater than the Early Termination Amount multiplied by the Utility's Percentage Share for the calendar year in which the sale (or, if COSGCO sells through multiple transactions, the last sale) closes, then the difference shall be paid to the Utility and shall be incorporated into its rates as a credit to customers in accordance with its approved tariffs and adjustment mechanisms. If said proceeds are less than the Early Termination Amount multiplied by the Utility's Percentage Share for the calendar year in which such sale closes, then the Utility shall pay BHUH the difference and incorporate the difference into its rates as a cost to customers in accordance with its approved tariffs and adjustment mechanisms. No other Utility shall have any claim to any payment made under this Section 6.4.

BHUH shall calculate the "**Early Termination Amount**" pursuant to the following formula, as reasonably calculated by BHUH:

*Early Termination Amount = Net Cap. Costs + (Net Cap. Costs * Cost of Capital) + Net Op. Costs*

WHERE:

"**Net Cap. Costs**" shall be an amount equal to Investment Base (as defined in ARTICLE 1 but excluding any Properties and/or wells for which the relevant Utility is a Non-Participating Utility plus the estimated capitalized costs, if any, that COSGCO will remain obligated to pay in connection with the sold interests under any binding agreements with third parties) plus the net present value (in nominal dollars using the then-applicable Cost of Capital as the discount rate) of any minimum daily quantity penalties that COSGCO may incur as a result of the termination.

"**Net Op. Costs**" shall be an amount equal to the estimated operating costs, if any, that COSGCO will remain obligated to pay in connection with the sold interests under any binding agreements with third parties.

ARTICLE 7 - ADDITIONAL COVENANTS

Section 7.1 Neither BHUH nor the Utilities shall provide financing for, extend credit to, issue long-term debt for or pledge utility assets in support of the activities of COSGCO contemplated by this COSG Agreement.

Section 7.2 Neither BHUH nor the Utilities shall guarantee any new debt obligations, notes, debentures, or any other security of Black Hills Corporation, a South Dakota corporation, or its non-utility operations.

Section 7.3 Stand-alone or project financing for COSGCO's activities shall be without recourse to either BHUH or the Utilities.

ARTICLE 8 - CONDITION SUBSEQUENT

Section 8.1 This COSG Agreement shall have no force and effect unless and until each PUC has approved this COSG Agreement in full and without modification in orders satisfactory to BHUH and the Utilities, *provided* that if each PUC does not so approve this COSG Agreement, then BHUH and each Utility for which its respective PUC has so approved this COSG Agreement shall have the right, but not the obligation, to deem this COSG Agreement effective as to such Utility.

ARTICLE 9 - MISCELLANEOUS

Section 9.1 Replacement Forecasts and Reports. If a forecast that comprises part of the Long-Term Market Price Forecast ceases to be published or Regulatory Research Associates ceases to report the average annual return on equity in gas and electric utility rate cases, then BHUH shall promptly select an appropriate alternative forecast or report to achieve the same effect.

Section 9.2 Default; Remedies. If any Party fails or refuses to comply with any of the terms and conditions of this COSG Agreement, any other Party may notify that Party (and the other Parties) in writing of such alleged default, specifying the nature and character of the default. The defaulting Party shall have sixty (60) calendar days after receipt of such notice within which to initiate good-faith action to correct the alleged default, *provided* that in the event the defaulting Party in good faith contests such alleged default, the defaulting Party may give written notice of such contest to the other Parties within said sixty (60) calendar day period, and in such event, the Parties shall proceed to resolve the dispute in as provided in Section 9.3. The Parties shall continue performance of this COSG Agreement during the pendency of any such dispute resolution proceeding. If the dispute resolution process determines that the alleged default occurred, the defaulting Party shall have fifteen (15) calendar days after the date of such to begin good-faith curative action.

Section 9.3 Dispute Resolution.

(i) Panel of Senior Executives. Each Party shall select a senior executive with authority to decide or resolve the matter in dispute. Such senior executives shall meet and in good faith attempt to resolve the dispute within thirty (30) calendar days. If the Parties are unable to resolve the dispute pursuant to this Section 9.3(i), any Party may enforce its rights pursuant to Section 9.3(ii).

(ii) Arbitration. If any Party alleges that there is a default by the other Party of its obligations under this COSG Agreement, such dispute shall be finally resolved by arbitration in Rapid City, South Dakota before one (1) arbitrator. The Parties shall request that an arbitrator be provided who has experience with the resolution of disputes related to the acquisition and development of oil and gas properties as the matter may require. The arbitration shall be administered by JAMS pursuant to its Comprehensive Arbitration Rules and Procedures. Judgment on the award may be entered in any court having jurisdiction. This clause shall not preclude the Parties from seeking provisional remedies in aid of arbitration from a court of appropriate jurisdiction. The Parties shall equally share the costs of the arbitration proceeding and shall otherwise each pay their own costs related to the arbitration, including attorneys' fees and expert witness costs, *provided* that the arbitrator shall have authority to assess the costs of the arbitration proceeding, as well the prevailing Party's costs, including attorneys' fees and expert witness costs, against the non-prevailing Party as part of the award. The Parties shall be legally bound by the arbitrator's decision and agree that review of the arbitrator's decision shall be limited to those grounds specified in the Federal Arbitration Act. If any Party fails to proceed with arbitration, fails to comply with the decision, or unsuccessfully challenges the decision, that Party must pay all of the other Party's costs of suit including reasonable attorneys' fees and expert witness costs incurred to enforce or defend such a decision.

Section 9.4 Force Majeure. If BHUH is rendered unable, wholly or in part, by a Force Majeure Event to carry out its obligations under this COSG Agreement, other than the obligations to make monetary payments, or if a Force Majeure Event renders COSGCO unable, wholly or in part, to perform BHUH's directives, then BHUH shall give the Utilities prompt written notice describing the Force Majeure Event in reasonable detail. Thereupon, the obligations of BHUH, so far as it is affected by the Force Majeure Event, shall be suspended for a period equal to the period of the continuance of the Force Majeure Event. BHUH shall itself, or shall cause COSGCO to, use all reasonable diligence to remove the Force Majeure Event as quickly as practicable. The requirement that any Force Majeure Event be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or other labor difficulty by the Party affected, contrary to its wishes, and settlement or resolution of such matters shall be within the discretion of the affected Party. "**Force Majeure Event**" shall mean an act of God, act of terrorism, strike, lockout, or other industrial disturbance, act of the public enemy, war (declared or undeclared), blockade, public riot, landslide, lightning, fire, storm, storm warning that results in evacuation of the affected area, flood, washout, maintenance, integrity testing, breakage, blockage, accidents to or freezing of oil and gas production, processing or transportation equipment, explosion, governmental action, restraint or inaction, the interruption or suspension of the receipt or delivery of Gas due to the inability or failure of any third party not a Party to this COSG Agreement to receive or deliver such Gas, unavailability of equipment, or inability to gain access, ingress or egress to conduct operations (including delays in or inability to obtain permits, approvals or clearances, which includes permits or approvals related to the use of any specific fracture stimulation technology or methodology, from any governmental authority), and any other factor or circumstance beyond BHUH or COSGCO's control, whether foreseen, foreseeable or unforeseeable, that limits, delays or prevents either BHUH's performance of this COSG Agreement or COSGCO's production, processing, and/or sale of Hydrocarbons from the Properties and that could not have avoided by the exercise of due diligence. For the avoidance of doubt, if a Force Majeure Event prevents COSGCO from selling Hydrocarbons on the market to third parties, the Parties' respective rights and obligations under ARTICLE 5 shall not be suspended.

Section 9.5 Assignment. No Party may assign or transfer, by assignment, sale, merger or otherwise by operation of law, in whole or in part, any of its rights or obligations under this COSG Agreement without the prior written consent of the other Parties, which may be withheld by each in its sole discretion, and any attempted assignment or transfer without such prior written consent shall be void, *provided* that (i) this Section 9.5 shall not apply to a change of control in BHUH or a sale of substantially all of BHUH's assets to a third party, and (ii) if BHUH does not consent, then the PUC for the Utility seeking to assign or transfer shall be deemed to have ordered that Utility to terminate its rights and obligations under the COSG Agreement pursuant to Section 6.2.

Section 9.6 Notices. All notices and communications required or permitted under this COSG Agreement shall be in writing addressed as indicated below, and any communication or delivery made pursuant to this Section 9.6 shall be deemed to have been duly delivered and received upon the earliest of: (i) actual receipt by the Party to be notified; (ii) three (3) calendar days after deposit with the U.S. Postal Service, certified mail, postage prepaid, return receipt requested; or (iii) two (2) calendar days after deposit with Federal Express overnight delivery (or other reputable overnight delivery service), postage prepaid, return receipt requested. Addresses for all such notices and communication shall be as follows:

To BHUH:

Black Hills Utility Holdings, Inc.
c/a Black Hills Corporation
625 Ninth Street
Rapid City , SD 57701
ATTN: President

With a copy to:

Patrick Joyce
Senior Managing Counsel
Black Hills Corporation
1102 E. 1st Street
Papillion, NE 68046
Fax: 402-829-2691

To Utilities:

Black Hills Power, Inc.
409 Deadwood Avenue
Rapid City, SD 57702
ATTN: President

Black Hills/Colorado Electric Utility Company, LP
105 South Victoria
Pueblo, CO 81003
ATTN: President

Black Hills/Colorado Gas Utility Company, LP
7060 Alegre Street
Fountain, CO 80817
ATTN: President

Black Hills/Iowa Gas Utility Company, LLC
1701 48th Street # 260
West Des Moines, IA 50266
ATTN: President

Black Hills/Kansas Gas Utility Company, LLC
110 East 9th Street
Lawrence, KS 66044
ATTN: President

Black Hills/Nebraska Gas Utility Company, LLC
501 West 6th Street
Papillion, NE 68046
ATTN: President

Black Hills Northwest Wyoming Gas Utility Company, LLC
1301 West 24th Street
Cheyenne, WY 82001
ATTN: President

Cheyenne Light, Fuel & Power
1301 West 24th Street
Cheyenne, WY 82001
ATTN: President

With a copy to (regardless of the receiving Utility):

Patrick Joyce
Senior Managing Counsel
Black Hills Corporation
1102 East 1st Street
Papillion, NE 68046
Fax: 402-829-2691

Each Party may, upon written notice to the other Parties, change the address and person to whom such communications are to be directed.

Section 9.7 Relationship of the Parties. This COSG Agreement is not intended to create, and shall not be construed to create, an association for profit, a trust, a joint venture, a mining partnership or other relationship of partnership, or entity of any kind between the Parties. The Parties understand and agree that the liabilities of the Parties shall be several, not joint or collective and that each Party shall be solely responsible for its own obligations except as otherwise provided in this COSG Agreement.

Section 9.8 No Third-Party Beneficiary. This COSG Agreement is made solely for the benefit of the Parties and their permitted successors and assigns, and no other person shall have any right, benefit or interest under or because of this COSG Agreement. There are no intended third-party beneficiaries of this COSG Agreement.

Section 9.9 Entire Agreement. This COSG Agreement and the exhibits to this COSG Agreement contain the entire agreement of the Parties with respect to the subject matter of this COSG Agreement and supersede all previous agreements or communications between the Parties, verbal or written, with respect to the subject matter of this COSG Agreement.

Section 9.10 Governing Law. This COSG Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of South Dakota, without reference to its conflict of law provisions.

Section 9.11 Amendments; Waiver. No amendments or other modifications or changes to this COSG Agreement shall be effective or binding on any Party unless the same shall be in a writing executed by all Parties, *provided* that BHUH may agree to another utility(ies) becoming a party(ies) to this COSG Agreement, without a writing being executed by the Utilities and approved by their PUCs, but subject to the following limitations: (i) the terms and conditions to which the Utilities are bound under the COSG Agreement shall remain the same; and (ii) any such added utility shall be deemed a Non-Participating Utility with respect to any Property approved pursuant to Section 4.3 before such utility becomes a party to this COSG Agreement. No waiver by any Party of any one or more defaults by the other in the performance of this COSG Agreement shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature.

Section 9.12 Public Announcements. Unless otherwise agreed or required by law as determined by a Party, a Party may make any public announcement or statement with respect to this COSG Agreement or the transactions contemplated by this COSG Agreement without the consent of the other Parties, *provided* that the non-announcing Parties shall be afforded an opportunity to review and comment upon any required public announcement or statement prior to the announcement or statement being made.

Section 9.13 Severability. If a court of competent jurisdiction determines that any clause or provision of this COSG Agreement is void, illegal, unenforceable or unconscionable under any present or future law (or interpretation thereof), the remainder of this COSG Agreement shall remain in full force and effect, and the clauses or provisions that are determined to be void, illegal, unenforceable or unconscionable shall be deemed severed from this COSG Agreement as if this COSG Agreement had been executed with the invalid provisions eliminated, *provided* that (i) upon any such determination, the Parties shall negotiate in good faith to modify this COSG Agreement so as to affect the original intent of the Parties as closely as possible, and (ii) if the removal of such provisions destroys the legitimate purposes of this COSG Agreement, then this COSG Agreement shall no longer be of any force or effect.

Section 9.14 Further Assurances. The Parties shall execute, acknowledge and deliver or cause to be executed, acknowledged and delivered such instruments and take such other action as may be necessary or advisable to carry out their obligations under this COSG Agreement and under any document or other instrument delivered pursuant to this COSG Agreement.

Section 9.15 Rules of Construction. The headings of the articles and sections of this COSG Agreement are for guidance and convenience of reference only and shall not limit or otherwise affect any of the terms or provisions of this COSG Agreement. All references in this COSG Agreement to articles, sections, subsections and other subdivisions refer to corresponding articles, sections, subsections and other subdivisions of this COSG Agreement unless expressly provided otherwise. Titles appearing at the beginning of any of such subdivisions are for convenience only and shall not constitute part of such subdivisions and shall be disregarded in construing the language contained in such subdivisions. "Including" and its grammatical variations mean "including without limitation." Unless the context otherwise requires, "or" is not exclusive; words in the singular form shall be construed to include the plural and vice versa; words in any gender include all other genders; references in this COSG Agreement to any instrument or agreement refer to such instrument or agreement as it may be from time to time amended or supplemented; and references in this COSG Agreement to any Party include such Party's permitted successors and assigns. All references in this COSG Agreement to exhibits refer to exhibits attached to this COSG Agreement unless expressly provided otherwise. This COSG Agreement has been drafted with the joint participation of BHUH and the Utilities and shall be construed neither against nor in favor of either one Party but in accordance with the fair meaning of its terms.

Section 9.16 Execution in Counterparts. This COSG Agreement may be executed by signing an original or a counterpart. If this COSG Agreement is executed in counterparts, all counterparts taken together shall have the same effect as if all the Parties had signed the same instrument.

Each Party caused this COSG Agreement to be executed, by its duly authorized representative, as of the day and year first above written.

BHUH:

Black Hills Utility Holdings, Inc.,
a South Dakota corporation

By: Ivan Vancas
Name: Ivan Vancas
Title: VP-OPERATIONS SERVICES

Utilities:

Black Hills Power, Inc.,
a South Dakota corporation

By: V. A. Crocker
Name: Vance A. Crocker
Title: VP electric operations

Black Hills/Colorado Electric Utility Company, LP,
a Delaware limited partnership

By: ______________________
Name: ______________________
Title: ______________________

Black Hills/Colorado Gas Utility Company, LP,
a Delaware limited partnership

By: ______________________
Name: ______________________
Title: ______________________

Black Hills/Iowa Gas Utility Company, LLC,
a Delaware limited liability company

By: ______________________
Name: ______________________
Title: ______________________

Black Hills/Kansas Gas Utility Company, LLC,
a Delaware limited liability company

By: ______________________________
Name: ______________________________
Title: ______________________________

Black Hills/Nebraska Gas Utility Company, LLC,
a Delaware limited liability company

By: ______________________________
Name: ______________________________
Title: ______________________________

Black Hills Northwest Wyoming Gas Utility Company, LLC,
a Delaware limited partnership

By: ______________________________
Name: ______________________________
Title: ______________________________

Cheyenne Light, Fuel and Power Company,
a Wyoming corporation

By: ______________________________
Name: ______________________________
Title: ______________________________

EXHIBIT A

Acquisition Criteria

1. A Property must have:

    a. On a net present value basis (in nominal dollars using the then-applicable Cost of Capital as the discount rate), a COSG Cost Forecast for the term of its Reserve Report that is less than the then-current Long-Term Market Price Forecast of Gas prices for the same volumes over the same period, so that it is reasonably anticipated, based on then-available information, that its acquisition and development pursuant to the Proposed Drilling Program will generate a savings for the Utilities' customers;

    b. Proved developed producing reserves equal to at least fifty percent (50%) of the net present value of the acquisition by COSGCO (using the then-applicable Cost of Capital as the discount rate), but this criterion shall not apply if COSGCO is to earn interests in the Property through drilling;

    c. An expected remaining producing life of at least fifteen (15) years; and

    d. At least fifty percent (50%), on a btu basis, of its anticipated Hydrocarbon production consist of Gas.

2. A Property must be located:

    a. In the Rockies or Mid-continent regions of the United States and must contain formations with (i) an established history of Gas production, (ii) low dry hole risk, and (iii) an established history of reserves per well and costs per well; and

    b. At or near trading hub locations to minimize costs to transport Gas to market.

3. If the Property is to be acquired from, or operated by, Black Hills Exploration and Production, Inc. or any other affiliate of Black Hills Corporation, then an independent third party must have issued a valuation opinion concluding the following:

    a. COSGCO's proposed transaction with that affiliate is fair based on other deals with unrelated third parties that are known in the market; and

    b. The terms of any agreements to which COSGCO would become a party through the transaction with that affiliate are commercially reasonable.

EXHIBIT B

Drilling Plan Criterion

The wells to be developed under the updated Drilling Plan before the next Five-Year Anniversary must have on a net present value basis (in nominal dollars using the then-applicable Cost of Capital as the discount rate) a COSG Cost Forecast for their producing life as determined by the Reserve Report that is less than the then-current Long-Term Market Price Forecast for Gas for the same volumes over the same period, so that it is reasonably anticipated, based on then-available information, that developing these wells will generate a savings to the Utilities' customers.

EXHIBIT C

Percentage Share and Hedge Target

Each Utility's Hedge Target and Percentage Share for 2016 are as follows:

Utility	Current Annual Demand (in Dths)	Hedge Target (in Dths)	Percentage Share
Black Hills Power, Inc. (South Dakota and Wyoming only)	600,000	300,000	0.83%
Black Hills/Colorado Electric Utility Company, LP	10,500,000	5,250,000	14.46%
Black Hills/Colorado Gas Utility Company, LP	8,500,000	4,250,000	11.71%
Black Hills/Iowa Gas Utility Company, LLC	17,300,000	8,650,000	23.83%
Black Hills/Kansas Gas Utility Company, LLC	13,000,000	6,500,000	17.91%
Black Hills/Nebraska Gas Utility Company, LLC	16,200,000	8,100,000	22.31%
Black Hills Northwest Wyoming Gas Utility Company, LLC	1,400,000	700,000	1.93%
Cheyenne Light, Fuel and Power Company (gas)	4,700,000	2,350,000	6.47%
Cheyenne Light, Fuel and Power Company (elec.)	400,000	200,000	0.55%
Aggregate	*72,600,000*	*36,300,000*	*100%*

EXHIBIT D

Sample Hedge Credit Calculation

Line No.				
1	Per Section 5.1(i), the formula for calculating a Hedge Credit is as follows:			
2				
3	*Hedge Credit = -(Net Income-((Allowed ROE + 100 basis points) * Invested Equity)) * 1/(1-T)*			
4				
5	For example only, the following is how Section 5.1(i) would work in a hypothetical month:			
6			3,250,000	COSGCO Revenue from sales of Hydrocarbons
7				**COSGCO OpEx**
8			2,324,000	Operating Expenses
9			111,075	Interest Exp (40% of Investment Base)
10			814,925	Income Before Taxes
11			309,672	Ln 10 * 38% (Federal and State Income Taxes)
12	Net Income =		505,254	
13			1.61	Tax Gross up (1/(1-.38)
14	Hedge Credit		(166,366)	=-(ln12-((ln21+ln27)*ln25))*ln13
15				
16	Assumptions for the above calculation:			
17	Equity %		60.00%	
18	Allowed ROE		9.86%	
19	Debt %		40.00%	
20	Allowed Cost of Debt		4.50%	
21	Allowed ROE (monthly)	ln 18 ÷ 12	0.8217%	
22	Allowed Cost of Debt (monthly)	ln 20 ÷ 12	0.3750%	
23	Debt Expense (monthly)	ln 24 * ln 19 * ln 22	111,075	
24	Investment Base		74,050,000	
25	Invested Equity	ln 24 * ln 17	44,430,000	
26	100 Basis Points		1.00%	
27	100 Basis Points (monthly)	ln 26 ÷ 12	0.083%	
28	Actual ROE (monthly)	ln 12 ÷ ln 25	1.1372%	

Sample Hedge Cost Calculation

Line No.				
1	Per Section 5.1(ii), the formula for calculating a Hedge Cost is as follows:			
2				
3	_Hedge Cost = -(Net Income-((Allowed ROE - 100 basis points) * Invested Equity)) * 1/(1-T)_			
4				
5	For example only, the following is how Section 5.1(ii) would work in a hypothetical month:			
6			2,450,000	COSGCO Revenue from sales of Hydrocarbons
7				**COSGCO OpEx**
8			2,054,000	Operating Expenses
9			86,075	Interest Exp (40% of Investment Base)
10			309,925	Income Before Taxes
11			117,772	Ln 10 * 38% (Federal and State Taxes)
12		Net Income =	192,154	
13			1.61	Tax Gross up (1/(1-.38)
14		Hedge Cost	100,107	=-(ln12-((ln21-ln27)*ln25))*ln13
15				
16	Assumptions for the above calculation			
17	Equity %		60.00%	
18	Allowed ROE		9.86%	
19	Debt %		40.00%	
20	Allowed Cost of Debt		4.50%	
21	Allowed ROE (monthly)	ln 18 ÷ 12	0.8217%	
22	Allowed Cost of Debt (monthly)	ln 20 ÷ 12	0.3750%	
23	Debt Expense (monthly)	ln 24 * ln 19 * ln 22	86,075	
24	Investment Base		57,383,333	
25	Invested Equity	ln 24 * ln 17	34,430,000	
26	100 Basis Points		1.00%	
27	100 Basis Points (monthly)	ln 26 ÷ 12	0.083%	
28	Actual ROE (monthly)	ln 12 ÷ ln 25	0.5581%	