

BLACK HILLS POWER, INC.
Overall Cost of Service
For the Test Year Ended December 31, 2005

Line No.	Description	Reference	Per Books	Proforma Adjustments	Adjusted Total	Additional Revenue Required	Adjusted Rate of Return
Operating Revenue							
1	Sales of Electricity	Stmt I, p.1	\$ 181,813,787	\$ (47,647,276)	\$ 134,166,511	\$ 15,058,705	\$ 149,225,216
2	Other Operating Revenue	Stmt I, p.1	7,191,620	7,711,850	14,903,470		14,903,470
3	Total Operating Revenue		<u>189,005,406</u>	<u>(39,935,426)</u>	<u>149,069,981</u>	<u>15,058,705</u>	<u>164,128,685</u>
Operating Expenses							
4	Operation and Maintenance	Stmt H, p.2	126,046,202	(36,287,686)	89,758,516		89,758,516
5	Depreciation	Stmt J	19,391,889	467,868	19,859,757		19,859,757
6	Amortization	Stmt J	151,404	-	151,404		151,404
7	Taxes Other Than Income Tax	Stmt L	7,260,750	421,632	7,682,383		7,682,383
8	State Income Tax	Sched K-5	(12,903)		(12,903)		(12,903)
9	Total Operating Expenses		<u>152,837,343</u>	<u>(35,398,186)</u>	<u>117,439,157</u>	<u>-</u>	<u>117,439,157</u>
10	Operating Income Before Tax		36,168,064	(4,537,240)	31,630,824	15,058,705	46,689,529
11	Federal Income Tax	Stmt K, p.1	5,755,886	(1,470,512)	6,355,491	5,270,547	11,626,038
12	Return (Operating Income)		<u>\$ 30,425,081</u>		<u>\$ 25,288,236</u>		<u>\$ 35,076,394</u>
13	Rate of Return		<u>9.15%</u>		<u>7.09%</u>		<u>9.83%</u>
Rate Base							
14	Plant in Service	Stmt D, p.2	647,592,169	24,905,838	672,498,007		672,498,007
15	Accumulated Depreciation	Stmt E, p.1	(249,864,525)	(467,868)	(250,332,393)		(250,332,393)
16	Accumulated Amort. Acq. Adj.	Stmt E, p.2	(2,144,893)	-	(2,144,893)		(2,144,893)
17	Working Capital	Stmt F	18,645,734		18,645,734		18,645,734
18	Other Rate Base Reductions	Sched M-1	(81,828,629)		(81,828,629)		(81,828,629)
19	Total Rate Base		<u>\$ 332,399,856</u>	<u>\$ 24,437,970</u>	<u>\$ 356,837,826</u>		<u>\$ 356,837,826</u>

BLACK HILLS POWER, INC.
Other Rate Base Reductions
For the Test Year Ended December 31, 2005

Schedule M-1
Page 1 of 1

Line No.	FERC Description	Account #	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	12 Month Average
1	Accumulated Current Deferred Income Tax Liabilities (Assets)															
2	Prepaid Expenses	283-2200	155,310	155,310	155,310	155,310	155,310	155,310	155,310	155,310	155,310	155,310	155,310	155,310	155,310	158,146
3	Bad Debt Reserve	190-1100	(319,039)	(319,039)	(319,039)	(319,578)	(319,578)	(319,578)	(317,286)	(317,286)	(317,286)	(306,100)	(306,100)	(306,100)	(290,533)	(313,580)
4	Vacation Pay	190-1200	(190,377)	(190,377)	(190,377)	(241,301)	(241,301)	(241,301)	(190,377)	(190,377)	(190,377)	(190,377)	(190,377)	(190,377)	(213,803)	(203,931)
5	Self Insurance	190-1300	(157,500)	(157,500)	(157,500)	(157,500)	(157,500)	(157,500)	(157,500)	(157,500)	(157,500)	(17,500)	(17,500)	(17,500)	(110,250)	(121,558)
6	Employee Group Insurance	190-2000	(81,725)	(81,725)	(81,725)	(81,725)	(81,725)	(81,725)	(81,725)	(81,725)	(81,725)	(81,725)	(81,725)	(81,725)	(73,526)	(81,094)
7	Workers Comp	190-2100	(17,429)	(17,429)	(17,429)	(11,541)	(11,541)	(11,541)	(1,675)	(1,675)	(1,675)	(3,309)	(3,309)	(3,309)	(3,823)	(8,130)
8	Results Comp Plan	190-2400	(96,251)	(96,251)	(96,251)	(96,251)	(96,251)	(96,251)	(96,251)	(96,251)	(96,251)	(95,713)	(95,713)	(95,713)	(259,013)	(108,647)
9	Derivative Asset	190-2900	-	-	-	-	-	-	-	-	-	(265,608)	(185,644)	(127,687)	(76,547)	(163,871)
10	Subtotal		(707,011)	(707,011)	(707,011)	(752,586)	(752,586)	(752,586)	(689,504)	(689,504)	(689,504)	(805,022)	(725,058)	(667,101)	(835,320)	(842,665)
11																
12	Accumulated Noncurrent Deferred Income Tax Liabilities (Assets)															
13	Reg Liab - Plant (Excess Tax Only)	254-1100	1,518,819	1,506,470	1,494,121	1,481,772	1,469,423	1,457,074	1,444,725	1,432,376	1,420,027	1,407,678	1,395,329	1,382,980	1,370,631	1,444,725
14	Amortization of Property	281-1000	73,480	73,480	73,480	67,718	67,718	67,718	61,957	61,957	61,957	56,196	56,196	56,196	50,434	63,730
15	Accelerated Depreciation	282-1000	66,161,363	66,161,363	66,161,363	66,374,630	66,374,630	66,374,630	66,773,892	66,773,892	66,773,892	66,012,579	66,012,579	66,012,579	65,345,776	66,254,859
16	Wyodak Pollution Bonds	283-1000	136,070	136,070	136,070	117,809	117,809	117,809	99,549	99,549	99,549	81,288	81,288	81,288	63,028	105,167
17	Pension Plan	283-1200	3,307,483	3,307,483	3,307,483	3,200,681	3,200,681	3,200,681	3,093,879	3,093,879	3,093,879	2,972,816	2,972,816	2,972,816	2,880,274	3,123,450
18	Reacquired Bonds Loss	283-1300	1,072,476	1,072,476	1,072,476	1,056,277	1,056,277	1,056,277	1,040,078	1,040,078	1,040,078	1,023,879	1,023,879	1,023,879	1,007,680	1,045,062
19	Deferred Compensation	190-1000	(364,830)	(364,830)	(364,830)	(363,082)	(363,082)	(363,082)	(361,683)	(361,683)	(361,683)	(360,285)	(360,285)	(360,285)	(365,741)	(362,722)
20	PEP Plan	190-1500	(386,249)	(386,249)	(386,249)	(391,976)	(391,976)	(391,976)	(397,703)	(397,703)	(397,703)	(396,933)	(396,933)	(396,933)	(397,833)	(393,571)
21	Retiree - Health Care	190-1900	(1,851,364)	(1,851,364)	(1,851,364)	(1,906,157)	(1,906,157)	(1,906,157)	(1,995,378)	(1,995,378)	(1,995,378)	(2,079,928)	(2,079,928)	(2,079,928)	(2,147,725)	(1,972,785)
22	Kirk Inventory Writedown	190-2300	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)	(75,950)
23	Line Extensions	190-2500	(598,085)	(598,085)	(598,085)	(590,792)	(590,792)	(590,792)	(657,873)	(657,873)	(657,873)	(815,131)	(815,131)	(815,131)	(949,124)	(687,290)
24	Officer Restricted Stock	190-2600	(5,159)	(5,159)	(5,159)	(5,159)	(5,159)	(5,159)	(7,872)	(7,872)	(7,872)	(9,229)	(9,229)	(9,229)	(11,728)	(7,230)
25	Air Allowances	190-2800	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)	(128,221)
26	PEP Plan (AOCI)	190-3210	(183,981)	(183,981)	(183,981)	(183,981)	(183,981)	(183,981)	(183,981)	(183,981)	(183,981)	(183,981)	(183,981)	(183,981)	(183,981)	(186,530)
27	Performance Plan	190-4200	-	-	-	(1,410)	(1,410)	(1,410)	(5,864)	(5,864)	(5,864)	(8,810)	(8,810)	(8,810)	(5,458)	(4,132)
28	Subtotal		68,675,852	68,663,503	68,651,154	68,652,159	68,639,810	68,627,461	68,699,555	68,687,206	68,674,857	67,495,968	67,483,619	67,471,270	66,418,931	68,218,565
29																
30	FAS 109 Liabilities (Assets)															
31	Reg Liab - Plant (Gross Up on Excess DIT)	254-1100	830,421	823,882	817,343	810,804	804,265	797,726	791,187	784,648	778,109	771,570	765,031	758,492	751,953	791,187
32	Reg Liab - ITC	254-1200	556,846	545,165	533,484	521,802	510,121	498,440	486,759	475,077	463,396	451,715	440,034	428,352	416,671	486,759
33	Accum. Deferred ITC	255-1000	1,034,144	1,012,450	990,756	969,062	947,368	925,674	903,981	882,287	860,593	838,899	817,205	795,511	773,817	903,981
34	Equity AFUDC	283-1400	2,712,063	2,712,063	2,712,063	2,712,063	2,712,063	2,712,063	2,712,063	2,712,063	2,712,063	2,640,053	2,640,053	2,640,053	2,640,053	2,689,906
35	FAS 109 - AFUDC	283-1450	1,460,342	1,460,342	1,460,342	1,460,342	1,460,342	1,460,342	1,460,342	1,460,342	1,460,342	1,421,567	1,421,567	1,421,567	1,421,567	1,448,411
36	Reg Asset - AFUDC	182-3000	(4,172,405)	(4,172,405)	(4,172,405)	(4,172,405)	(4,172,405)	(4,172,405)	(4,172,405)	(4,172,405)	(4,172,405)	(4,061,620)	(4,061,620)	(4,061,620)	(4,061,620)	(4,138,317)
37	ITC	190-1600	(361,950)	(354,357)	(346,764)	(339,172)	(331,579)	(323,986)	(316,393)	(308,800)	(301,207)	(293,615)	(286,103)	(278,429)	(270,836)	(316,399)
38	Def. Tax - FAS 109	190-1700	(830,421)	(823,882)	(817,343)	(810,804)	(804,265)	(797,726)	(791,187)	(784,648)	(778,109)	(771,570)	(765,031)	(758,492)	(751,953)	(791,187)
39	Def. Tax - FAS 109 - ITC	190-1750	(194,896)	(190,808)	(186,719)	(182,631)	(178,542)	(174,454)	(170,366)	(166,277)	(162,189)	(158,100)	(154,012)	(149,923)	(145,835)	(170,365)
40	Subtotal		1,034,144	1,012,450	990,756	969,062	947,368	925,674	903,981	882,287	860,593	838,899	817,124	795,511	773,817	903,974
41																
42	Unamortized Investment Tax Credit (Pre-1971)															
43	All Amortized															
44																
45	Customer Advances for Construction	All 252 Accts	2,237,737	2,244,702	2,237,697	2,246,900	2,276,844	2,275,591	2,468,559	2,534,226	2,689,578	2,922,197	3,020,913	3,162,219	3,305,036	2,586,323
46																
47	Other Liabilities															
48	Accrued Pension Supplement	253-1000	1,042,384	1,033,391	1,038,721	1,037,390	1,036,058	1,034,727	1,033,395	1,032,063	1,030,732	1,029,400	1,028,069	1,026,737	1,044,988	1,034,466
49	Accrued Director's Pension	253-1100	51,335	49,603	48,870	47,138	45,405	43,673	42,940	42,208	41,475	40,742	40,010	39,278	44,919	44,430
50	Accrued PEP Liability	253-1300	1,562,531	1,561,658	1,573,439	1,578,893	1,584,347	1,589,802	1,595,256	1,600,710	1,606,164	1,611,618	1,617,072	1,622,526	1,714,783	1,601,446
51	Retiree Health Care Liability	253-1400	5,289,609	5,367,037	5,423,581	5,446,160	5,558,043	5,622,439	5,701,078	5,784,854	5,861,231	5,942,649	6,008,532	6,089,428	6,136,355	5,710,077
52	Air Allowances	253-1500	366,346	366,346	366,346	366,346	366,346	366,346	366,346	366,346	366,346	366,346	366,346	366,346	366,346	366,346
53	Regulatory Liability	254-1000	116,099	116,099	116,099	116,099	116,099	116,099	167,374	167,374	167,374	167,374	167,374	167,374	167,374	167,653
54	Subtotal		8,428,304	8,494,134	8,567,056	8,592,025	8,706,298	8,824,360	8,906,388	8,993,555	9,073,322	9,158,129	9,227,403	9,311,689	9,474,765	8,904,417
55																
56	Total-Black Hills Power		\$ 79,669,026	\$ 79,707,777	\$ 79,739,652	\$ 79,707,559	\$ 79,817,734	\$ 79,900,500	\$ 80,288,978	\$ 80,407,770	\$ 80,608,845	\$ 79,610,171	\$ 79,824,000	\$ 80,073,588	\$ 79,137,228	\$ 79,770,614
57																
58	Less: Transmission Other Rate Base Reductions															
59	Form 1 Page 275 line 2 column k	282														(7,688,821)
60	Form 1 Page 277 line 9 column k	283														(902,033)
61	Form 1 Page 234 line 8 column c	190														714,061
62	Reg Asset - AFUDC	182														128,887
63	Reg Liab - Plant (Gross Up on Excess DIT)	254-1100														(58,771)
64	Reg Liab - ITC	254-1200														(11,537)
65	Subtotal															(7,818,214)
66	Grand Total to be included in the Black Hills Power Rate Base															71,952,400
67	Transmission System Reserve Deposit	253-1900														(522,531)
68	Transmission System Reserve Deposit-BHW	253-2500														(1,535,483)
69	Subtotal for Other Rate Base reductions to be allocated to the Transmission System															(9,876,229)
70																
71	Total Other Rate Base Reductions															81,828,629