

RECEIVED

DEC 22 2006

IN THE MATTER OF THE APPLICATION OF  
BLACK HILLS POWER, INC. FOR AUTHORITY  
TO INCREASE RATES FOR ELECTRIC SERVICE

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

STAFF MEMORANDUM SUPPORTING  
SETTLEMENT STIPULATION

DOCKET EL06-019

Commission Staff submits this memorandum in support of the Settlement Stipulation of December 20, 2006, between Commission Staff and Black Hills Power, Inc. in the above captioned matter.

**BACKGROUND**

On June 30, 2006, Black Hills Power, Inc. (BHP) filed for approval of an increase in rates for electric service in South Dakota. In its application BHP requested a rate increase of \$9,593,688, an increase of approximately 9.5% in firm retail electric sales revenues. Additionally, BHP is requesting approval of three automatic cost pass through clauses per SDCL 49-34A-25. Since August 1, 1995, BHP has not had an operating fuel adjustment clause, per the Settlement Stipulation and Order in Docket EL95-003.

BHP's proposed increase was based on a historic test year ending December 31, 2005, as adjusted for what BHP believes to be known and measurable changes, and an 11.75% return on common equity. BHP witnesses submitted testimony stating that the increase was necessary to recover additional costs in capital investments to meet customer growth, general inflation and corporate compliance related expenses.

The Commission gave notice of the filing on July 6, 2006, and set an intervention deadline of August 8, 2006. On July 28, 2006, Merillat Industries, LLC, Pope & Talbot, Inc. and GCC Dacotah, Inc. (collectively Black Hills Interveners or BHI) filed a timely petition to intervene. On August 24, 2006, the Commission issued its Order Granting Intervention concerning that petition. On August 25, 2006, the City of Gillette filed a late petition to intervene. On September 7, 2006, the City of Gillette filed a motion to withdraw its petition for intervention and on September 26, 2006, the Commission issued an Order Granting Withdrawal of Intervention. On September 14, 2006, Rushmore Forest Products filed a late petition to intervene to join BHI. On October 3, 2006, the Commission issued its Order Granting Intervention concerning that petition. On September 26, 2006, the Commission issued its Order For And Notice Of Procedural Schedule And Hearing ordering that a hearing be held at 9:30 a.m., on Tuesday, November 20, 2006, and at 8:30 a.m. on Wednesday, November 21, 2006. On October 27, 2006, the Commission issued a Second Order For And Notice Of Procedural Schedule And Hearing ordering a two week extension to filing deadlines and ordering that the hearing and briefing schedule will be rescheduled to a future date. On November 22, 2006, the Commission issued an Order Canceling Procedural Schedule.

On or about October 11, 2006, BHP and BHI began settlement discussions. Those settlement discussions resulted in the BHP and BHI Confidential Settlement Agreement which is attached to the Settlement Stipulation between Commission Staff and BHP. Staff was not a party to the settlement discussions between BHP and BHI and, thus, cannot provide any insight as to how that settlement was reached. However, as will be discussed later, Staff and BHP have incorporated the BHP and BHI Confidential Settlement Agreement into the Settlement Stipulation between Staff and BHP.

On November 6 and 7, 2006, Staff and BHP engaged in settlement discussions regarding the rate increase request. As a result of those negotiations, a tentative settlement of the revenue deficiency was reached. Subsequently, BHP provided Staff with additional requested information and discussions continued throughout December until the remaining outstanding issues, including but not limited to, how BHP and Staff would handle the BHP/BHI Confidential Settlement Agreement, rate design, tariffs and revenue deficiency distribution were resolved.

## **OVERVIEW OF SETTLEMENT**

BHP's filing was based on a test year ending December 31, 2005, adjusted for changes, a claimed 9.83% required rate of return reflecting an 11.75% return on common equity capital and reflected a 9.5% across the board distribution of the rate increase. BHP proposed a number of rate base and operating income adjustments to test year operations along with three fuel clause adjustments.

Staff's determination of the appropriate revenue requirement for BHP was based on a comprehensive analysis of BHP's filing and a substantial amount of additional information gathered in discovery. Staff accepted some of the Company's claims and adjustments. Staff made corrections to and/or modifications to other Company-proposed adjustments using more current and actual data. Additionally, Staff rejected Company adjustments that Staff believed were not known and measurable and proposed additional adjustments and corrections to BHP's filed case.

Differences between the Company and Staff positions were discussed thoroughly at the November 6 and 7, 2006, settlement meetings and thereafter, when further information was supplied by the Company. As a result of these discussions and exchanges, each party modified certain positions it had previously taken and each party accepted certain positions of the other on specific issues with the objective of achieving a comprehensive resolution of the issues based on sound regulatory principles, thus avoiding unnecessary litigation. Ultimately Staff and BHP were able to reach agreement on a specific revenue deficiency of \$7,971,819 or approximately 7.9%. Each affected rate class will receive an across the board increase. BHP has agreed to limit the rate increase to BHI to 7% and has agreed to a reduction of \$84,933 in the total revenue deficiency to reflect this commitment. Thus, overall, the settlement rates are designed to produce an increase in base rate levels of \$7,886,886 or approximately 7.8%. The revenue deficiency and supporting calculations reflected in this memorandum and attachments depict Staff's positions regarding all components of BHP's South Dakota jurisdictional cost of service, including an appropriate return on equity. BHP and Staff have agreed to that revenue requirement, and resulting increase in rates.

## OVERVIEW OF BHP CASE

As indicated earlier BHP's filing was based on a test year ending December 31, 2005, adjusted for changes to rate base and operating income and a claimed 9.83% required rate of return reflecting an 11.75% return on common equity capital. The Company's filed revenue requirement analysis plus the additional inflation and labor increases presented to Staff suggested a revenue deficiency of approximately \$14.4 million or approximately a 14% increase in its firm retail electric operations.

BHP's case was filed somewhat different from what Staff is accustomed to seeing. Like all rate cases, BHP's case started with total company test year amounts. However, from there BHP's case took on a different look. Most rate cases filed with the South Dakota Commission first break the total company test year amounts into SD test year amounts and then adjust for South Dakota specific known and measurable adjustments. This South Dakota jurisdictional allocation is normally accomplished and laid out in statements A through R. However, BHP adjusted the per books cost of service for the total company adjustments with the bulk of the statements A through R having little South Dakota specific information. BHP ultimately allocated the total company per books and adjusted test year amounts into South Dakota specific amounts as detailed in Statement N and N-1. This method made the BHP filed case difficult in determining what adjustments actually affected the South Dakota rate payers, and certainly made it more difficult in determining the dollar affect those adjustments would have on the South Dakota rate payers. Staff gave the company a number of suggested changes and directed them to other company filed cases which should help simplify future BHP filed rates cases.

- BHP Rate Base Issues

Transmission Plant (Common Use System or CUS) – BHP proposed an adjustment to remove approximately \$71.4 million from total company transmission plant in service from the cost of service. BHP indicated this adjustment was necessary since its transmission system now falls under its FERC tariff and thus is FERC jurisdictional. This adjustment also includes a removal of the associated depreciation expense and accumulated depreciation.

Plant Additions - BHP increased its test year total company plant in service by approximately \$19.4 million for post-test year total company non-revenue producing capital additions (netted for accumulated depreciation) to arrive at what they expected to be in service by the end of 2006.

Annualization of Account 106 - BHP proposed to increase total company plant in service by \$5,477,978 to annualize total company non-revenue producing plant additions added during the test year.

Working Capital – BHP's total company rate base determination also included a working capital allowance comprised of fuel stocks, materials and supplies, prepaid expenses, tax collections available and cash working capital. BHP did file a lead/lag study.

- BHP Operating Income Issues

Neil Simpson II Outage – During the 2005 test year, BHP experienced a 30 day forced outage of the Neil Simpson II power plant due to a mechanical failure. During this outage, BHP had to replace this lost energy with higher cost energy. According to BHP workpapers and support, this outage increased total company test year expenses by approximately \$3.3 million dollars. BHP removed this expense from the cost of service.

MDU Transmission Adjustment – BHP's Transmission adjustment reduced total company test year transmission expense by \$610,015 to reflect a new wholesale contract with MDU which will reimburse BHP for transmission rights.

Rate Case Expense – BHP proposed an adjustment for the three year amortization of \$550,000 of total company rate case expense associated with filing and processing this case.

Power Marketing Activities – BHP proposed an adjustment decreasing total company test year operating income by approximately \$3.6 million to exclude the effects of its Power Marketing activities. This adjustment essentially decreases operating revenues by approximately \$47.6 million and decreases associated expenses by approximately \$44.0 million, the bulk of which (approximately \$37.0 million) is purchased power.

Labor – BHP proposed a comprehensive three-part labor adjustment. First, BHP proposed an adjustment to “fill” nine employee positions that were open in the test year. Second, BHP proposed an adjustment to increase total company labor costs for wage increases during the test year and for the 2006 wage increase for union and non-union employees. Third, BHP proposed an adjustment to remove 12.8 positions and associated expenses out of the cost of service of BHP and into the newly-created Service Company of Black Hills Corporation. These three adjustments resulted in an increase in labor expense of approximately \$540,000.

Change In Control – BHP proposed an adjustment removing approximately \$390,000 total company one time expense charged to BHP by the service company during the test year related to the terminations and buyout of change in control contracts.

Service Company Costs – BHP's Service Company adjustment represents an approximate \$1.8 million increase in total company test year operating expenses. This adjustment was proposed to reflect the newly-established methods of allocating Service Company costs among the affiliated entities using those services.

Pension and Benefits - BHP proposed a total company adjustment to pension and benefits for the employees transferred out of BHP to the service company and for the new employees BHP added to BHP's cost of service discussed in the labor adjustment above. The transfer out and adding of employees resulted in a total company net decrease in pension and benefits expense of approximately \$49,000.

Transmission Expense Reclass - Because BHP's transmission system assets have been directly assigned to the FERC jurisdiction in the BHP cost of service model, BHP proposed a total company adjustment to add approximately \$7.7 million (approximately \$4.1 million reserved capacity and \$3.6 million Common Use System (CUS) charges) of expense related to the charges for BHP's use of the transmission system in accordance

with the FERC tariffs. BHP also made a corresponding increase in total company revenues of approximately \$3.6 million for the CUS changes in rent from electric property.

Transmission (CUS) Expense – BHP proposed a total company \$1.3 million increase in operating expenses as a result of the December, 2005 FERC approved transmission rates.

Wyodak Outage (boiler maintenance) – BHP proposed a total company adjustment of approximately \$1.472 million for boiler maintenance of the Wyodak Plant that occurred in 2006. BHP indicates this will be an ongoing expense recurring every five years. Therefore, BHP proposed to increase expenses by approximately \$294,400 which represents a five year amortization.

Coal Costs – BHP proposed a total company coal cost adjustment of approximately \$387,000 to reflect 2006 increases in costs.

Advertising – BHP has provided an adjustment for the removal of approximately \$160,000 of total company test year advertising expense.

Depreciation Expense and Accumulated Depreciation – BHP hired a consultant to complete a depreciation study. This study suggested a change in BHP's depreciation rates. Thus, BHP is proposing to update the 2005 test year depreciation expense and accumulated depreciation as if the proposed depreciation rates were in effect in 2005. Additionally, BHP is adjusting depreciation expense and accumulated depreciation for the proposed plant adjustments made in BHP's case. The net of these adjustments increased total company depreciation expense by approximately \$936,000 and accumulated depreciation by approximately \$468,000.

Revenues – BHP proposed a total company adjustment of approximately \$359,000 for increased miscellaneous service revenues due to the increase in proposed charges in NSF checks, connection and reconnections, and revenues related to the purchase of Mayer radio.

Payroll Taxes – BHP proposed an adjustment to payroll taxes (both state and federal) based on the labor adjustments described above. This adjustment resulted in an approximately \$31,000 increase in total company payroll taxes for the adjusted test year.

Property Taxes – BHP proposed an approximate \$371,000 increase to total company property taxes based on the plant additions previously discussed.

Deferred Tax True Up - BHP's total company test year per book amounts included a total company deferred tax amount of about \$2.7 million. BHP removed about \$2.1 million of this amount from the cost of service as a result of a deferred tax true-up recorded in 2005 in accordance with FAS 109. This is a non-recurring item correcting previous periods.

PUC Taxes– BHP proposed a total company increase in SD PUC and Wyoming PSC taxes of approximately \$20,000. The SD PUC increase was related to the increase that will be paid to the SDPUC gross receipts tax fund resulting from the rate increase.

Interest Synchronization – BHP proposed an adjustment to synchronize the tax deduction for interest on debt with the adjusted rate base and weighted cost of long-term debt.

Other FIT adjustment– BHP also proposed an adjustment for Federal Income taxes as a result of all of the adjustments made to the test year and as a result of the proposed increase in revenues.

- Automatic Adjustment Clauses

BHP proposed three automatic adjustment clauses, a Steam Plant Fuel Cost Adjustment, a Transmission Cost Adjustment and a Conditional Energy Cost Adjustment.

Steam Plant Fuel Cost Adjustment – BHP's Steam Plant Fuel Cost Adjustment is a simple and straight forward adjustment clause designed to pass through increases or decreases in coal costs used to fuel company owned base load generation serving native load customers. It is a simple dollar for dollar pass through with a base amount included in base rates. BHP will file the adjustments annually with the Commission.

Transmission Cost Adjustment – BHP's Transmission Cost Adjustment operates the same as the Steam Plant Fuel Cost Adjustment except it accounts for transmission cost to service native load customers.

Conditional Energy Cost Adjustment – BHP's proposed Conditional Energy Cost Adjustment (CECA) operates similar to the other adjustment clauses. The CECA accounts for other fuel (mostly natural gas and some fuel oil) and purchased power costs in serving native load customers. However, this adjustment clause contained an incentive mechanism for BHP to retain any cost decreases but in return insulates the retail, native load customers from the first \$2,000,000 (or more depending on power marketing net income) of cost increases measured on a per kWh basis. Simply stated, if the cost per kWh for native load customers falls below the approved base, BHP would retain all such cost reductions. If the cost per kWh for native load customers increases above the base, BHP would absorb up to the first \$2,000,000 of cost increases (potentially more if BHP's power marketing earnings exceed \$3,000,000).

## **STAFF OVERVIEW OF SETTLEMENT**

Staff performed a comprehensive analysis of BHP's filing and a substantial amount of additional information was requested in discovery and during settlement negotiations. As a result of this analysis, Staff believes this settlement provides BHP with a rate increase that is fair, just and reasonable. This rate increase allows BHP the opportunity to earn a return required to continue to provide safe, adequate and reliable service to its South Dakota retail customers. The revenue deficiency and supporting calculations reflected below and attachments depict Staff's position regarding all components of BHP's South Dakota jurisdictional cost of service, including an appropriate return on equity.

In reviewing the cost of service for BHP, Staff developed its case using information that BHP provided in its original filing and in subsequent discovery. Like BHP, Staff's case begins with a 2005 total company test year. However, unlike BHP, Staff chose to first allocate the total company test year amounts into a South Dakota jurisdictional 2005 test year and then adjust for known and measurable changes. This will result in Staff's test year amounts, individual known and measurable adjustment amounts and cost of service amounts looking much different than BHP's amounts because Staff's amounts are for the South Dakota jurisdiction versus total company as reflected by BHP.

In determining the South Dakota test year amounts, Staff reviewed BHP's test year allocations and found them generally acceptable. Therefore, Staff was able to obtain most of the South Dakota test year amounts for rate base and operating income from Statement N.

Upon review of Statement N, Staff noted that the South Dakota unadjusted test year indicated a revenue deficiency for the South Dakota jurisdiction of approximately \$837,000. This indicated that the remaining approximately \$13.2 million of BHP's proposed revenue deficiency was derived from BHP's adjustments to the test year. Thus, Staff focused much of its time reviewing the BHP proposed test year adjustments.

Corrections – While performing our review of BHP's case, Staff found a few calculation errors in BHP's cost of service model. These errors were minor and resulted in small corrections to the test year amounts that BHP recorded on Statement N. These corrections resulted in an approximate \$366,000 reduction to South Dakota's test year rate base and an approximate \$13,000 reduction in test year revenues.

- Rate Base Issues

Transmission Plant (CUS) – Staff agreed with BHP's proposed adjustment to remove the CUS plant from the cost of service. Since Staff's case starts with the South Dakota jurisdiction, Staff's case does not have a specific adjustment for the removal of the CUS plant, and associated depreciation expense and accumulated depreciation.

Plant Additions – Staff reviewed BHP's proposed post test year non-revenue producing plant additions and determined that certain proposed plant additions were not yet completed as well as certain estimated amounts being different than actual. Thus Staff's adjustment included all non-revenue producing investment expenditures to date and any supported by existing contracts. As a result, Staff's adjustment included an addition of approximately \$13.2 million in South Dakota jurisdictional plant. Staff also included an adjustment to increase depreciation expense by approximately \$531,000 and accumulated depreciation by approximately \$266,000 based on BHP's new depreciation rates supported by the depreciation study.

Annulaization of Account 106 - Staff agreed with BHP's annualization of account 106 and accepted the adjustment. Staff's adjustment resulted in an increase of approximately \$4.9 million in South Dakota jurisdictional plant. Staff also included an adjustment to increase depreciation expense by approximately \$168,000 and accumulated depreciation by approximately \$84,000 based on BHP's new depreciation rates supported by the depreciation study.

Working Capital – Staff’s case includes the following modifications from BHP’s working capital calculations: First, Staff updated materials and supplies, fuel stocks, prepayments and customer advances for construction test year amounts to the most current amounts available and excluded amounts related to federal and state income taxes from prepaid expenses and excluded the company’s post test year adjustment for additional gas injected into storage. This resulted in a decrease of approximately \$481,000 for South Dakota’s rate base. Additionally, Staff made some minor adjustments to BHP’s lead/lag days to reflect statutory payment dates. More importantly, BHP calculated cash working capital based on test year amounts only, where Staff’s calculation included adjustment for all of Staff’s known and measurable adjustments made to the test year making Staff’s adjustment more precise. Subsequently, Staff’s adjustment for cash working capital decreases the South Dakota rate base by approximately \$894,000.

- Operating Income Issues

Neil Simpson II Outage – Staff concurs with BHP’s Neil Simpson II adjustment and accordingly removed approximately \$2.6 million of expense from the South Dakota cost of service.

MDU Transmission Adjustment – Staff concurs with BHP’s MDU transmission adjustment. Thus Staff removed approximately \$571,000 of expense from the South Dakota cost of service.

Rate Case Expense – Staff agreed in principal with BHP’s proposed rate case adjustment but revised how the company allocated the amount to South Dakota. The three year amortization of the South Dakota amount of approximately \$481,000 resulted in an increase in test year expense of approximately \$160,000 assuring a return of the expense. Additionally, Staff included the average unamortized balance of approximately \$240,000 in rate base. The company’s adjustment did not include any adjustment to rate base.

Power Marketing Activities – Staff agreed with BHP’s proposed adjustment to remove BHP’s power marketing activities from the cost of service with the understanding that benefits derived from these activities would be addressed in the Conditional Energy Cost Adjustment. Accordingly, Staff removed approximately \$38 million in revenues and approximately \$35.4 million of expenses from South Dakota’s test year cost of service.

Labor – Staff agreed in part and modified in part BHP’s labor adjustment. First, BHP proposed an adjustment to fill nine employee positions that were open during the test year. During settlement discussions BHP provided Staff with support for three more new employee positions, thus, adding a total company amount of approximately \$170,000 to labor expense and corresponding increases to related benefits and costs to its filed adjustment. Staff’s adjustment allows only those employees whose positions were filled at the time of settlement and that did not create a mismatch of income, revenues and expenses. By doing so, Staff recognized the addition of approximately seven positions in the cost of service. Second, BHP proposed an adjustment to annualize wage increases during the test year and for the 2006 wage increases for union and non-union employees. Staff’s adjustment annualizes wage increases that occurred during the test year for union and non-union employees and incorporates the post test year wage

increases for 2006 for union and non-union employees but is calculated in a different manner than the company's proposal. Third, BHP proposed an adjustment to remove 12.8 employees and associated expenses out of the cost of service of BHP and into the Service Company of Black Hills Corporation. Staff accepted this adjustment. These adjustments as amended by Staff resulted in an increase in South Dakota labor expense of approximately \$304,000 but decreased employee benefits expense by approximately \$83,000. Additionally, Staff increased South Dakota payroll taxes by approximately \$24,000 for the related labor increases.

Change In Control – Staff accepted BHP's adjustment. Thus, Staff decreased South Dakota labor expense by approximately \$329,000 and decreased payroll taxes by about \$13,000.

Service Company Costs – Staff revised BHP's claim for corporate governance costs to reflect an allocation of 10% of such costs to Black Hills Corporation in lieu of the company's 5% allocation. The company's adjustment after Staff's revisions increased the South Dakota test year operating expense by approximately \$1.3 million.

Pension and Benefits – Staff accounted for these adjustments in the above described labor adjustment.

Transmission Expense Reclass – Staff accepted BHP's adjustment as proposed. Thus, Staff increased South Dakota other operating revenues by approximately \$3.1 million and increased operating expense by approximately \$7.2 million.

Transmission (CUS) Expense – Staff updated BHP's proposed adjustment to reflect the most recent actual costs and accordingly, Staff revisions to BHP's adjustment increased the South Dakota test year operating expense by approximately \$1.04 million.

Wyodak Outage (boiler maintenance) – Staff incorporated BHP's adjustment but updated the adjustment to reflect actual expenses incurred. Accordingly Staff increased South Dakota test year operating expenses by approximately \$239,000 to reflect a five year amortization of the costs. Additionally, Staff included the average unamortized balance of approximately \$599,000 in rate base. The company's adjustment did not include any adjustment to rate base.

Coal Costs – Staff revised the company's adjustment to reflect the use tax on coal burned in South Dakota and accordingly increased South Dakota coal expense by approximately \$332,000.

Advertising – Staff accepted the BHP adjustment for advertising but also excluded an additional \$5,000 of company advertising. Thus Staff removed approximately \$139,000 from the South Dakota cost of service.

Depreciation Expense and Accumulated Depreciation – Staff accepted the new depreciation rates as proposed in BHP's depreciation study. Staff accounted for depreciation expense and accumulated depreciation for post test year non-revenue plant additions and test year plant annualizations in the above noted adjustments. Thus, the only adjustment left to make was an adjustment for depreciation expense and accumulated depreciation as filed. For this adjustment, Staff merely recalculated the

test year depreciation and accumulated depreciation with the new proposed rates. This resulted in a decrease in depreciation expense for South Dakota of approximately \$165,000 and a decrease in accumulated depreciation for South Dakota of approximately \$82,000.

Payroll Taxes – Staff accounted for this adjustment in the labor adjustment noted above.

Property Taxes – Staff accepted the theory of this adjustment but modified the amount of the adjustment to reflect property tax increases on only the plant additions accepted by Staff. Accordingly, Staff increased South Dakota property tax expense by approximately \$271,000.

Deferred Tax True Up - Staff accepted this adjustment as filed by BHP. Thus Staff adjusted South Dakota deferred income tax by approximately \$1.7 million.

PUC Taxes – Staff did not accept the proposed Wyoming PSC tax increase and calculated the SD PUC gross receipts tax increase based on the agreed upon revenue deficiency. Staff's adjustment increased the tax expense by approximately \$12,000.

Interest Synchronization – Staff's interest synchronization adjustment to synchronize the tax deduction for interest on debt with the adjusted rate base and weighted cost of long-term debt was based on Staff's case and resulted in a decrease in FIT of approximately \$7,000.

Other FIT adjustments – Staff accounted for its adjustments for FIT in each adjustment noted above at a calculated rate of 35%.

- Additional Cost of Service Adjustments

Inflation – During preliminary settlement discussions, BHP inquired about an inflation adjustment. Subsequently, BHP proposed a 3.5 percent inflation adjustment which increased other total company O&M expense by approximately \$409,000. Staff accepted the theory of the adjustment based on prior court decisions, but revised the calculation. Staff's adjustment annualizes other O&M expense not otherwise adjusted by one half the test year actual inflation rate, and then, further adjusts other O&M expense not otherwise adjusted by the post test year inflation rate. Staff's adjustment resulted in an increase to South Dakota O&M expense of approximately \$496,000.

Industry Association Dues, Economic Development and Lobbying Expense – Staff proposed three adjustments for the removal of industry association dues, economic development and lobbying expense. Staff believes these expenses are for the benefit of shareholders and not necessary in providing safe, adequate and reliable service. The result of these adjustments decreases South Dakota operating expenses by approximately \$145,000.

Mayer Radio Expense Reduction – During the test year, Black Hills Corporation (BHC) operated the Mayer Radio system as a subsidiary. This radio system was used primarily as the safety communications system for BHP. During 2006, BHP purchased the radio system from BHC and took over control. BHP's case as filed made several adjustments to the test year for the ongoing operations of this system. However, Staff found some

test year expenses charged to BHP from BHC that will no longer be applicable due to the transfer. Thus Staff removed approximately \$173,000 of O&M expense from the South Dakota cost of service.

Deferred FIT on Plant Additions - Staff made an adjustment to increase deferred FIT for plant additions incorporated in Staff's case. This adjustment recognizes the difference between book and tax depreciation rates for FIT purposes. The adjustment increases South Dakota deferred FIT by approximately \$177,000 and South Dakota accumulated deferred income taxes by approximately \$88,000.

Miscellaneous Service Revenue –Staff revised BHP's adjustment to reflect no change in the NSF check charge, a \$5 increase in the reconnect charge in lieu of the company's proposed \$10 increase and incorporated the correct amount of Mayer Radio revenues. The adjustment increases South Dakota revenues approximately \$295,000.

SDSMT/BHSU Wheeling – Staff made an adjustment to reflect the 2007 rates per contract to the schools for distribution wheeling service. The adjustment increases South Dakota revenues by approximately \$39,000.

Tree Trimming Expense – While processing the case, Staff had some concerns regarding tree trimming expenses included in the test year. As a result of settlement discussions, BHP committed to spend a South Dakota average minimum of approximately \$731,000 on vegetation management which is well above the 3 and 5 year average expenditures. Given the recent litigation regarding forest fires and safety and reliability concerns, Staff believes this is a positive step in the provisioning of safe, adequate and reliable service.

Moratorium – During the ongoing settlement negotiations BHP agreed to a three year moratorium for an increase in base rates. See the Settlement Stipulation for detail.

- Cost of Capital and Rate of Return

BHP's filing was based on an overall rate of return of 9.83% derived from its actual capital structure during the 2005 test year and a proposed 11.75% return on common stock equity. **\*\*\*begin confidential**

**end confidential\*\*\*** Staff determined that a rate of return of 8.605% reflecting a **\*\*\*begin confidential** **end confidential\*\*\*** return on common equity capital was appropriate for BHP and incorporated that in Staff's revenue requirement.

- Automatic Adjustment Clauses

Steam Plant Fuel Cost and Transmission Cost Adjustments – The Steam Plant Fuel Cost and Transmission Cost Adjustment clauses are simple dollar for dollar pass through of the related costs allowed by SDCL 49-34A-25. Since the 1995 rate settlement, BHP had been operating under a rate freeze. Therefore, automatic adjustment clauses may be new for many of BHP's electric retail customers. Therefore, Staff does anticipate some consumer contacts when the adjustment clauses go into effect on March 1, 2008, however, Staff has much experience in dealing with these types of issues relative to our other regulated IOU adjustment clauses. Staff supports the concept of fuel clauses as authorized by state law, and thus, accepted the proposed

Steam Plant Fuel Cost and Transmission Cost Adjustments with minor changes in BHP's filing. The main adjustments being the allocation of transmission costs among the various customer classes in the Transmission Cost Adjustment and clarification that the price of coal included in the Steam Plant Fuel Cost Adjustment is determined in accordance with the methodology set forth in the Statement R of this proceeding which limits the return on equity for coal sales to BHP to the return on utility A rated bonds plus 400 basis points.

Conditional Energy Cost Adjustment – BHP's Conditional Energy Cost Adjustment (CECA) was a focus of much attention by Staff and BHP. Early on, Staff understood the benefit to customers of BHP's power marketing activities and recognized the benefit of BHP accepting the risk and insulating customers from the first \$2,000,000 of cost increases and a sharing of additional increased costs based on BHP's power marketing net income. Staff also generally supports incentive mechanisms which properly motivate utilities to find innovative ways to keep costs for customers low while still being able to provide safe, adequate and reliable service. However, Staff raised concerns that the CECA as filed appeared somewhat one sided because BHP was able to retain the benefits of all cost decreases below the base costs. Staff believed that if the approved base costs were set too high, BHP would be able to beat that base all the time and profit at the customers' expense. After much negotiation BHP and Staff agreed to an amended CECA which functioned the same as the initial proposal as to insulating customers from cost increases from the base costs, but also allowed for the return of all cost decreases to customers once those costs decrease by more than a \$1,000,000 as measured on a per kWh basis. Additionally, the CECA was also amended to remove language related to the inclusion of purchased capacity expenses and purchased capacity expenses were excluded in the calculated based unit costs. Staff believes the CECA as amended provides for rate stability, provides BHP with the proper incentive to decrease costs and recognizes that BHP's Power Marketing activities were enabled by the existence of facilities and the business organization supported by SD ratepayers.

- Rate Design Issues

Distribution of Rate Increase – BHP proposed an across the board distribution of the rate increase. Staff reviewed the class cost of service study presented and agreed that an across the board distribution of the rate increase of approximately 7.9% is a reasonable approach to distribute the agreed to revenue deficiency. BHP has agreed to limit the rate increase to BHI to 7% and has agreed to a reduction of \$84,933 in the total revenue deficiency to reflect this commitment.

Service Charges – BHP proposed to increase the customer charges by \$1.50 with the remainder of the revenue increase collected through energy and capacity charges. The Settlement Stipulation reflects an increase in customer charges of \$.50 with the remainder of the revenue requirement collected through energy and capacity charges.

Other Tariff / Rate Changes – BHP proposed to increase the NSF check charge from \$15 to \$30, the connection charge from \$10 to \$20 and the reconnect charge from \$10 to \$20. The Settlement Stipulation reflects the NSF check charge at the current level of \$15, the connection charge at \$20 and the reconnection charge at \$15. Additionally BHP incorporated a new Forest Products tariff as a result of the settlement with BHI.

BHP proposed to eliminate the Cogeneration and Small Power Production Service tariffs. The Settlement Stipulation incorporates the existing tariffs with no change.

BHP proposed a Special Events Service tariff that was withdrawn during settlement negotiations.

Black Hills Power Inc.  
Docket EL06-019  
South Dakota Electric Revenue Requirement  
Adjusted Test Year Ended December 31, 2005

Line	Description	Staff Proposed South Dakota Electric Adjusted 2005 Test Year	BHP Proposed South Dakota Electric Adjusted 2005 Test Year	Difference
	(a)	(b)	(c)	(d)
1	Average Rate Base	\$ 280,957,517	\$ 286,039,222	\$ (5,081,705)
2	Adjusted Test Year Operating Income	19,002,473	18,945,280	57,193
3	Earned Rate of Return	6.763%	6.623%	
4	Recommended Rate of Return	8.605%	9.826%	
5	Required Operating Income	24,176,394	28,106,669	(3,930,275)
6	Income Deficiency (Excess)	5,173,921	9,161,419	(3,987,498)
7	Gross Revenue Conversion Factor	1.53846		
8	Revenue Deficiency (Excess)	7,959,879	14,094,491	(6,134,612)
9	Gross Receipts Tax (at 0.0015)	11,940		
10	<b>Total Revenue Deficiency (Excess)</b>	<b>7,971,819</b>	<b>14,094,491</b>	(6,122,672)
11	Adjusted Test Year Revenue	118,896,526	118,923,970	(27,444)
12	<b>Revenue Requirement</b>	<b>\$ 126,868,345</b>	<b>\$ 133,018,461</b>	<b>\$ (6,150,116)</b>

Black Hills Power Inc.  
Docket EL06-019  
South Dakota Electric Operating Income Statement With Known and Measurable Adjustments and Revenue Adjustment  
Adjusted Test Year Ended December 31, 2005

Line No.	Description (a)	South Dakota Per Books (b)	Total Staff Adjustments (c)	Adjusted Test Year (d)	Revenue Adjustment (e)	Adjusted Test Year with Revenue Adjustment (f)
1	OPERATING REVENUES:					
2	Firm Sales (including unbilled)	\$ 101,274,351	\$ 43,366	\$ 101,317,717	\$ 7,971,819	\$ 109,289,536
3	Non- Firm Sales	37,982,113	(37,982,113)	-		\$ -
4	Revenue from Contract	13,213,868	-	13,213,868		\$ 13,213,868
5	Other Operating Revenues	973,747	3,391,194	4,364,941		\$ 4,364,941
6	<b>TOTAL OPERATING REVENUES</b>	<b>153,444,079</b>	<b>(34,547,553)</b>	<b>118,896,526</b>	<b>7,971,819</b>	<b>126,868,345</b>
7	OPERATING EXPENSES:					
8	Operation and Maintenance:					
9	Coal	8,032,735	222,321	8,255,056		8,255,056
10	Coal Transportation	1,737,955	-	1,737,955		1,737,955
11	Fuel Oil	493,157	-	493,157		493,157
12	Natural Gas	2,463,814	(1,546,182)	917,632		917,632
13	Purchased Power and Capacity	50,210,762	(32,024,827)	18,185,935		18,185,935
14	Transmission	2,302,738	5,542,565	7,845,303		7,845,303
15	Labor	10,664,557	(25,070)	10,639,487		10,639,487
16	Employee Benefits	4,760,073	(83,051)	4,677,022		4,677,022
17	Office Supplies	608,772	-	608,772		608,772
18	Other O&M	17,236,004	(657,617)	16,578,387		16,578,387
19	Wyodak Power Plant O&M	2,708,992	239,417	2,948,409		2,948,409
20	Total Operation and Maintenance	101,219,559	(28,332,444)	72,887,115	-	72,887,115
21	Depreciation and Amortization	15,843,429	534,765	16,378,194		16,378,194
22	Taxes:					
23	Property Taxes	4,488,326	270,969	4,759,295		4,759,295
24	Payroll Taxes					
25	FICA	1,087,381	11,818	1,099,199		1,099,199
26	Federal Unemployment	14,842	(32)	14,810		14,810
27	State Unemployment	3,909	(40)	3,869		3,869
28	Gross Receipts Tax	145,206	5,152	150,358	11,940	162,298
29	Federal Income Taxes	7,215,183	(2,470,108)	4,745,075	2,785,958	7,531,033
30	Deferred Income Taxes	(2,180,088)	1,829,490	(350,598)		(350,598)
31	Investment Tax Credit	206,737	-	206,737		206,737
32	Other Taxes	-	-	-		-
33	Total Taxes	10,981,496	(352,751)	10,628,745	2,797,898	13,426,643
34	<b>TOTAL OPERATING EXPENSES</b>	<b>128,044,484</b>	<b>(28,150,431)</b>	<b>99,894,053</b>	<b>2,797,898</b>	<b>102,691,951</b>
35	<b>OPERATING INCOME</b>	<b>\$ 25,399,595</b>	<b>\$ (6,397,122)</b>	<b>\$ 19,002,473</b>	<b>\$ 5,173,921</b>	<b>\$ 24,176,394</b>
36	Rate Base	264,029,280		\$ 280,957,517		\$ 280,957,517
37	Earned Rate of Return	9.620%		6.763%		8.605%
38	Staff Proposed Rate of Return			8.605%		8.605%

Black Hills Power Inc.  
Docket EL06-019  
South Dakota Electric Operating Income Statement With Known and Measurable Adjustments  
Adjusted Test Year Ended December 31, 2005

Line No.	Description	South Dakota Per Books	Corrections To Test Year	Interest Sync		Rate Case Expense	Industry Association Dues	Economic Development	Advertising	Lobbying Expense	Inflation Adjustment	Mayer Radio Expense Reduction
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	OPERATING REVENUES:											
2	Firm Sales (including unbilled)	\$ 101,274,351	\$ 43,366									
3	Non- Firm Sales	37,982,113										
4	Revenue from Contract	13,213,868										
5	Other Operating Revenues	973,747	(56,455)									
6	<b>TOTAL OPERATING REVENUES</b>	<b>153,444,079</b>	<b>(13,089)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
7	OPERATING EXPENSES:											
8	Operation and Maintenance:											
9	Coal	8,032,735										
10	Coal Transportation	1,737,955										
11	Fuel Oil	493,157										
12	Natural Gas	2,463,814										
13	Purchased Power and Capacity	50,210,762										
14	Transmission	2,302,738										
15	Labor	10,664,557										
16	Employee Benefits	4,760,073										
17	Office Supplies	608,772										
18	Other O&M	17,236,004				160,287	(95,577)	(40,018)	(138,755)	(9,440)	496,194	(172,607)
19	Wyodak Power Plant O&M	2,708,992										
20	<b>Total Operation and Maintenance</b>	<b>101,219,559</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>160,287</b>	<b>(95,577)</b>	<b>(40,018)</b>	<b>(138,755)</b>	<b>(9,440)</b>	<b>496,194</b>	<b>(172,607)</b>
21	Depreciation and Amortization	15,843,429										
22	Taxes:											
23	Property Taxes	4,488,326										
24	Payroll Taxes											
25	FICA	1,087,381	-	-	-	-	-	-	-	-	-	-
26	Federal Unemployment	14,842	-	-	-	-	-	-	-	-	-	-
27	State Unemployment	3,909	-	-	-	-	-	-	-	-	-	-
28	Gross Receipts Tax	145,206	(20)	-	-	-	-	-	-	-	-	-
29	Federal Income Taxes	7,215,183	(4,574)	(6,898)	-	(56,100)	33,452	14,006	48,564	3,304	(173,668)	60,412
30	Deferred Income Taxes	(2,180,088)										
31	Investment Tax Credit	206,737										
32	Other Taxes	-										
33	<b>Total Taxes</b>	<b>10,981,496</b>	<b>(4,594)</b>	<b>(6,898)</b>	<b>-</b>	<b>(56,100)</b>	<b>33,452</b>	<b>14,006</b>	<b>48,564</b>	<b>3,304</b>	<b>(173,668)</b>	<b>60,412</b>
34	<b>TOTAL OPERATING EXPENSES</b>	<b>128,044,484</b>	<b>(4,594)</b>	<b>(6,898)</b>	<b>-</b>	<b>104,187</b>	<b>(62,125)</b>	<b>(26,012)</b>	<b>(90,191)</b>	<b>(6,136)</b>	<b>322,526</b>	<b>(112,195)</b>
35	<b>OPERATING INCOME</b>	<b>\$ 25,399,595</b>	<b>\$ (8,495)</b>	<b>\$ 6,898</b>	<b>\$ -</b>	<b>\$ (104,187)</b>	<b>\$ 62,125</b>	<b>\$ 26,012</b>	<b>\$ 90,191</b>	<b>\$ 6,136</b>	<b>\$ (322,526)</b>	<b>\$ 112,195</b>

Black Hills Power Inc.  
Docket EL06-019  
South Dakota Electric Operating Income Statement With Known and Measurable Adjustments  
Adjusted Test Year Ended December 31, 2005

Line No.	Description	Labor and Benefits Adjustments		Miscellaneous Service Revenue	SDSMT/BHSU Distribution Wheeling		Wyodak Power Plant Overhaul	CUS Open Access Transmission Tariff	Coal Adjustment	Service Company	Neil Simson II Outage	MDU Transmission
	(a)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)
1	OPERATING REVENUES:											
2	Firm Sales (including unbilled)											
3	Non- Firm Sales											
4	Revenue from Contract											
5	Other Operating Revenues			294,768	39,089							
6	<b>TOTAL OPERATING REVENUES</b>			<b>294,768</b>	<b>39,089</b>							
7	OPERATING EXPENSES:											
8	Operation and Maintenance:											
9	Coal								332,460			
10	Coal Transportation											
11	Fuel Oil											
12	Natural Gas											
13	Purchased Power and Capacity										(2,598,071)	
14	Transmission											(571,340)
15	Labor	303,734										
16	Employee Benefits	(83,051)										
17	Office Supplies											
18	Other O&M							1,037,238		1,346,111		
19	Wyodak Power Plant O&M						239,417					
20	<b>Total Operation and Maintenance</b>	<b>220,683</b>					<b>239,417</b>	<b>1,037,238</b>	<b>332,460</b>	<b>1,346,111</b>	<b>(2,598,071)</b>	<b>(571,340)</b>
21	Depreciation and Amortization											
22	Taxes:											
23	Property Taxes											
24	Payroll Taxes											
25	FICA	23,236										
26	Federal Unemployment	395										
27	State Unemployment	486										
28	Gross Receipts Tax			442	59							
29	Federal Income Taxes	(85,680)		103,014	13,661		(83,796)	(363,033)	(116,361)	(471,139)	909,325	199,969
30	Deferred Income Taxes											
31	Investment Tax Credit											
32	Other Taxes											
33	<b>Total Taxes</b>	<b>(61,563)</b>		<b>103,456</b>	<b>13,720</b>		<b>(83,796)</b>	<b>(363,033)</b>	<b>(116,361)</b>	<b>(471,139)</b>	<b>909,325</b>	<b>199,969</b>
34	<b>TOTAL OPERATING EXPENSES</b>	<b>159,120</b>		<b>103,456</b>	<b>13,720</b>		<b>155,621</b>	<b>674,205</b>	<b>216,099</b>	<b>874,972</b>	<b>(1,688,746)</b>	<b>(371,371)</b>
35	<b>OPERATING INCOME</b>	<b>\$ (159,120)</b>	<b>\$ -</b>	<b>\$ 191,312</b>	<b>\$ 25,369</b>	<b>\$ -</b>	<b>\$ (155,621)</b>	<b>\$ (674,205)</b>	<b>\$ (216,099)</b>	<b>\$ (874,972)</b>	<b>\$ 1,688,746</b>	<b>\$ 371,371</b>

Black Hills Power Inc.  
Docket EL06-019  
South Dakota Electric Operating Income Statement With Known and Measurable Adjustments  
Adjusted Test Year Ended December 31, 2005

Line No.	Description	Change In Control (x)	Test Year Power Marketing Removal (y)	Deferred Tax Adjustment (z)	AC/DC/CUS (aa)	Deferred Tax Adj. Plant Additions (ab)	Property Tax Adjustment on Plant Additions (ac)	Test Year Plant Annualization (ad)	Post Test Year Plant Additions (ae)	Depreciation Rate Adjustment (af)	Subtotal Staff Adjustments (ag)	Adjusted Test Year (ah)
1	OPERATING REVENUES:											
2	Firm Sales (including unbilled)										\$ 43,366	\$ 101,317,717
3	Non- Firm Sales		(37,982,113)								(37,982,113)	-
4	Revenue from Contract										-	13,213,868
5	Other Operating Revenues				3,113,792						3,391,194	4,364,941
6	<b>TOTAL OPERATING REVENUES</b>	<b>-</b>	<b>(37,982,113)</b>	<b>-</b>	<b>3,113,792</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(34,547,553)</b>	<b>118,896,526</b>
7	OPERATING EXPENSES:											
8	Operation and Maintenance:											
9	Coal		(110,139)								222,321	8,255,056
10	Coal Transportation										-	1,737,955
11	Fuel Oil										-	493,157
12	Natural Gas		(1,546,182)								(1,546,182)	917,632
13	Purchased Power and Capacity		(29,426,756)								(32,024,827)	18,185,935
14	Transmission		(1,093,310)		7,207,215						5,542,565	7,845,303
15	Labor	(328,804)									(25,070)	10,639,487
16	Employee Benefits										(83,051)	4,677,022
17	Office Supplies										-	608,772
18	Other O&M		(3,241,050)								(657,617)	16,578,387
19	Wyodak Power Plant O&M										239,417	2,948,409
20	<b>Total Operation and Maintenance</b>	<b>(328,804)</b>	<b>(35,417,437)</b>	<b>-</b>	<b>7,207,215</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,332,444)</b>	<b>72,887,115</b>
21	Depreciation and Amortization							168,205	531,389	(164,829)	534,765	16,378,194
22	Taxes:											
23	Property Taxes						270,969				270,969	4,759,295
24	Payroll Taxes											-
25	FICA	(11,418)	-	-	-	-	-	-	-	-	11,818	1,099,199
26	Federal Unemployment	(427)	-	-	-	-	-	-	-	-	(32)	14,810
27	State Unemployment	(526)	-	-	-	-	-	-	-	-	(40)	3,869
28	Gross Receipts Tax	-			4,671						5,152	150,358
29	Federal Income Taxes	119,411	(897,637)	-	(1,434,333)		(94,839)	(58,872)	(185,986)	57,690	(2,470,108)	4,745,075
30	Deferred Income Taxes			1,652,575		176,915					1,829,490	(350,598)
31	Investment Tax Credit										-	206,737
32	Other Taxes										-	-
33	<b>Total Taxes</b>	<b>107,040</b>	<b>(897,637)</b>	<b>1,652,575</b>	<b>(1,429,662)</b>	<b>176,915</b>	<b>176,130</b>	<b>(58,872)</b>	<b>(185,986)</b>	<b>57,690</b>	<b>(352,751)</b>	<b>10,628,745</b>
34	<b>TOTAL OPERATING EXPENSES</b>	<b>(221,764)</b>	<b>(36,315,074)</b>	<b>1,652,575</b>	<b>5,777,553</b>	<b>176,915</b>	<b>176,130</b>	<b>109,333</b>	<b>345,403</b>	<b>(107,139)</b>	<b>(28,150,431)</b>	<b>99,894,053</b>
35	<b>OPERATING INCOME</b>	<b>\$ 221,764</b>	<b>\$ (1,667,039)</b>	<b>\$ (1,652,575)</b>	<b>\$ (2,663,761)</b>	<b>\$ (176,915)</b>	<b>\$ (176,130)</b>	<b>\$ (109,333)</b>	<b>\$ (345,403)</b>	<b>\$ 107,139</b>	<b>\$ (6,397,122)</b>	<b>\$ 19,002,473</b>

Black Hills Power Inc.  
Docket NG06-019  
South Dakota Average Rate Base with Known and Measurable Adjustments  
Adjusted Test Year Ending December 31, 2005

Line No.	Description	South Dakota Test Year Average Per Books	Total Pro Forma Adjustments	South Dakota Pro Forma Rate Base
	(a)	(b)	(c)	(d)
1	Electric Plant in Service			
2	Production (including unclassified)	\$ 282,732,915	\$ 5,957,770	\$ 288,690,685
3	Transmission (including unclassified)	11,449,621	(266,574)	11,183,047
4	Distribution (including unclassified)	191,627,416	7,142,011	198,769,427
5	General (including unclassified)	24,213,724	5,086,032	29,299,756
6	Wyodak Acquisition Adjustment	4,257,214	-	4,257,214
7	Total Plant in Service	514,280,890	17,919,239	532,200,129
8	Accumulated Depreciation & Amortization			
9	Production	124,589,549	(156,789)	124,432,761
10	Transmission	11,297,449	55,693	11,353,142
11	Distribution	53,608,838	279,261	53,888,099
12	General	10,268,530	89,218	10,357,748
13	Wyodak Acquisition Adjustment	1,874,885	-	1,874,885
14	Total Accumulated Depreciation and Amortization	201,639,251	267,384	201,906,635
15	TOTAL NET ELECTRIC PLANT IN SERVICE	312,641,639	17,651,856	330,293,495
16	Additions to Rate Base:			
17	Materials and Supplies	8,080,364	533,544	8,613,908
18	Fuel Stocks	3,404,492	267,123	3,671,615
19	Prepayments	1,325,298	(650,011)	675,287
20	Advanced Tax Collections	-	(172,049)	(172,049)
21	Working Capital	1,472,227	(721,463)	750,764
22	Other	-	838,975	838,975
23	TOTAL ADDITIONS TO RATE BASE	14,282,381	96,119	14,378,500
24	Deductions to Rate Base:			
25	Accumulated Deferred Income Taxes	52,009,118	187,626	52,196,744
26	Accumulated Investment Tax Credit	-	-	-
27	Customer Advances for Construction	2,260,746	632,112	2,892,858
28	Customer Deposits	-	-	-
29	Accumulated Provision for Uncollectibles	-	-	-
30	Accumulated Provision for Injuries and Damages	-	-	-
31	Miscellaneous Operating Provisions	-	-	-
32	FAS 109	841,383	-	841,383
33	Other	7,783,493	-	7,783,493
34	TOTAL DEDUCTIONS TO RATE BASE	62,894,740	819,738	63,714,478
35	TOTAL SOUTH DAKOTA RATE BASE	\$ 264,029,280	\$ 16,928,237	\$ 280,957,517

Black Hills power Inc.  
Docket EL06-019  
South Dakota Average Rate Base with Known and Measurable Adjustments  
Adjusted Test Year Ending December 31, 2005

Line No.	Description	South Dakota Test Year Average Per Books (a)	Corrections To Test Year (b)	Working Capital (c)	Rate Case Expense (d)	Updates (e)	Wyodak Power Plant Overhaul (f)	Deferred Tax Adj. Plant Additions (g)	Test Year Plant Annualization (h)
1	Electric Plant in Service								
2	Production (including unclassified)	\$282,732,915							1,331,239
3	Transmission (including unclassified)	11,449,621	(266,574)						
4	Distribution (including unclassified)	191,627,416							2,926,979
5	General (including unclassified)	24,213,724							679,707
6	Wyodak Acquisition Adjustment	4,257,214							
7	Total Plant in Service	514,280,890	(266,574)	-	-	-	-	-	4,937,925
8	Accumulated Depreciation & Amortization								
9	Production	124,589,549							17,373
10	Transmission	11,297,449							
11	Distribution	53,608,838							44,198
12	General	10,268,530							22,533
13	Wyodak Acquisition Adjustment	1,874,885							
14	Total Accumulated Depreciation and Amortization	201,639,251	-	-	-	-	-	-	84,104
15	TOTAL NET ELECTRIC PLANT IN SERVICE	312,641,639	(266,574)	-	-	-	-	-	4,853,821
16	Additions to Rate Base:								
17	Materials and Supplies	8,080,364				533,544			
18	Fuel Stocks	3,404,492				267,123			
19	Prepayments	1,325,298				(650,011)			
20	Advanced Tax Collections			(172,049)					
21	Working Capital	1,472,227		(721,463)					
22	Other	-			240,431		598,544		
23	TOTAL ADDITIONS TO RATE BASE	14,282,381	-	(893,512)	240,431	150,656	598,544	-	-
24	Deductions to Rate Base:								
25	Accumulated Deferred Income Taxes	52,009,118	99,168					88,458	
26	Accumulated Investment Tax Credit	-							
27	Customer Advances for Construction	2,260,746				632,112			
28	Customer Deposits	-							
29	Accumulated Provision for Uncollectibles	-							
30	Accumulated Provision for Injuries and Damages	-							
31	Miscellaneous Operating Provisions	-							
32	FAS 109	841,383							
33	Other	7,783,493							
34	TOTAL DEDUCTIONS TO RATE BASE	62,894,740	99,168	-	-	632,112	-	88,458	-
35	TOTAL SOUTH DAKOTA RATE BASE	\$ 264,029,280	(365,742)	(893,512)	240,431	(481,456)	598,544	(88,458)	4,853,821

Black Hills power Inc.  
Docket EL06-019  
South Dakota Average Rate Base with Known and Measurable Adjustments  
Adjusted Test Year Ending December 31, 2005

Line No.	Description	Post Test Year Plant Additions	Depreciation Rate Adjustment	(l)	(m)	(n)	Total Staff Adjustments	Total Staff South Dakota Rate Base
	(a)	(j)	(k)				(o)	(p)
1	Electric Plant in Service							
2	Production (including unclassified)	4,626,531					\$ 5,957,770	\$ 288,690,685
3	Transmission (including unclassified)						(266,574)	11,183,047
4	Distribution (including unclassified)	4,215,032					7,142,011	198,769,427
5	General (including unclassified)	4,406,325					5,086,032	29,299,756
6	Wyodak Acquisition Adjustment						-	4,257,214
7	Total Plant in Service	13,247,888	-	-	-	-	17,919,239	532,200,129
8	Accumulated Depreciation & Amortization							
9	Production	60,489	(234,651)				(156,789)	124,432,761
10	Transmission		55,693				55,693	11,353,142
11	Distribution	60,265	174,798				279,261	53,888,099
12	General	144,940	(78,255)				89,218	10,357,748
13	Wyodak Acquisition Adjustment						-	1,874,885
14	Total Accumulated Depreciation and Amortization	265,694	(82,415)	-	-	-	267,384	201,906,635
15	TOTAL NET ELECTRIC PLANT IN SERVICE	12,982,194	82,415	-	-	-	17,651,856	330,293,495
16	Additions to Rate Base:							
17	Materials and Supplies						533,544	8,613,908
18	Fuel Stocks						267,123	3,671,615
19	Prepayments						(650,011)	675,287
20	Advanced Tax Collections						(172,049)	(172,049)
21	Working Capital						(721,463)	750,764
22	Other						838,975	838,975
23	TOTAL ADDITIONS TO RATE BASE	-	-	-	-	-	96,119	14,378,500
24	Deductions to Rate Base:							
25	Accumulated Deferred Income Taxes						187,626	52,196,744
26	Accumulated Investment Tax Credit						-	-
27	Customer Advances for Construction						632,112	2,892,858
28	Customer Deposits						-	-
29	Accumulated Provision for Uncollectibles						-	-
30	Accumulated Provision for Injuries and Damages						-	-
31	Miscellaneous Operating Provisions						-	-
32	FAS 109						-	841,383
33	Other						-	7,783,493
34	TOTAL DEDUCTIONS TO RATE BASE	-	-	-	-	-	819,738	63,714,478
35	TOTAL SOUTH DAKOTA RATE BASE	12,982,194	82,415	-	-	-	16,928,237	\$ 280,957,517

Black Hills Power Inc.  
 Docket EL06-019  
 Cost of Capital  
 December 31, 2005

## NON-CONFIDENTIAL

Line	<u>Component</u> (a)	<u>Balance as of December 31, 2005</u> (b)	<u>% of Total</u> (c)	<u>Cost</u> (d)	<u>Weighted Cost</u> (e)
1	Long Term Debt				
2	Preferred Stock				
3	Notes payable to Associated Companies (Net)				
4	Common Equity				
5	Total				8.605%

## NON-CONFIDENTIAL