

# Black Hills Utility Holdings, Inc.

## Cost Allocation Manual

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# Black Hills Utility Holdings, Inc. Cost Allocation Manual

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## **Introduction**

The purpose of this cost allocation manual is to document the allocation processes of Black Hills Utility Holdings, Inc. (“BHUH”), from recording the original transaction through the allocation of costs to entities receiving services from BHUH. Various topics to be addressed include the organization of BHUH, the recording of transactions, calculating and assigning allocation ratios, and recording allocation transactions.

BHUH began formal operations in July 2008. The company was formed in anticipation of the purchase of certain gas and electric utility operating companies from Aquila, Inc. BHUH is a wholly owned subsidiary of Black Hills Corporation (“BHC”). BHUH is the parent company of each of the five acquired Aquila operating companies. In addition, BHUH also supports the operations of the five acquired Aquila operating companies and other utility and utility like operating companies, together the “operating companies”. These costs are allocated to the operating companies requesting service using formal cost allocation methodologies. Departments that provide support services to the five acquired Aquila operating companies as well as other Black Hills Corporation subsidiaries are held at Black Hills Service Company, LLC (“BHSC”). BHSC cost allocation methodologies are discussed in a separate cost allocation manual.

## **BHUH Organization**

BHUH is organized into departments based upon the services that those departments provide to the operating companies. A list of each department, as well as a brief description of the services they provide, is attached hereto as Appendix 1.

## **Direct Costs versus Indirect Costs**

A key issue in distributing BHUH costs is distinguishing between direct costs and indirect costs. The account coding will change depending on whether the cost is a direct or indirect cost. Below is a summary of each of these types of costs and examples of these costs.

*Direct costs* are those costs that are specifically associated with an identified operating company. This means that it is known exactly to which operating company these costs relate. Here are some examples:

- Advertising is prepared for a new customer information and instructional advertising campaign in the state of Nebraska. The advertising costs incurred are specifically associated with an identified operating company. Therefore, this would be a direct cost.
- The Vice President of Utilities attends a meeting on the proposed budget for the state of Iowa. The labor costs incurred in attending this meeting are specifically associated with an identified operating company. Therefore, this would be a direct cost.
- A trainer from Gas Engineering travels to various Black Hills Kansas Gas field offices to conduct training. These travel costs are specifically associated with an identified operating company. Therefore, this would be a direct cost.

**Indirect costs** are those costs that are not associated with an identified operating company. This means that the costs indirectly support all companies or directly support the operation of BHUH. In other words, costs that would be directly charged to BHUH using the definition and examples above would be classified as indirect costs. Here are some examples:

- Advertising is prepared for all customers to inform them of changes to electronic payment processes. These advertising costs incurred apply to all operating companies. Therefore, this would be an indirect cost.
- The Vice President of Utilities attends a meeting to present the consolidated budget for all gas utilities to the Board of Directors. The labor costs incurred in attending this meeting are not specifically associated with an identified operating company. Therefore, this would be an indirect cost.
- A trainer from Gas Engineering travels to Rapid City to present a training program to operating company executives. These travel costs are specifically associated with BHUH. Therefore, this would be an indirect cost.

It is important when determining if a cost is a direct cost or an indirect cost to consider two things: (1) Can the costs coded to a specific operating company or group of operating companies be substantiated, and (2) Can it be substantiated that a utility-based subsidiary is not subsidizing the operations of a non-utility based subsidiary with the time and expenses that have been charged to them. A certain level of judgment will be involved when deciding whether a particular cost should be directly charged or indirectly allocated.

There are certain costs that will always be considered either direct or indirect costs. Below is a list of significant BHUH expenses that follow these rules:

Always considered direct costs:

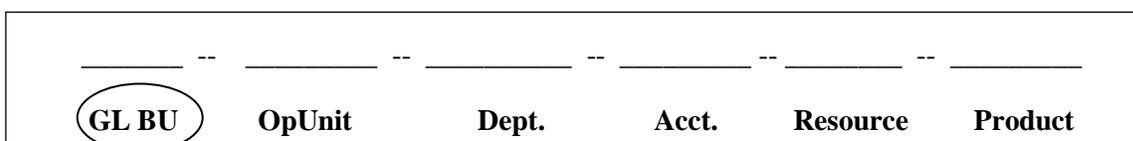
- Capitalized costs for non-BHUH projects (including capitalized labor)
- Retiree healthcare costs

Always considered indirect costs:

- Depreciation of BHUH and BHSC assets
- Intercompany interest expense and income related to the BHUH balance payable or receivable from the Utility Money Pool

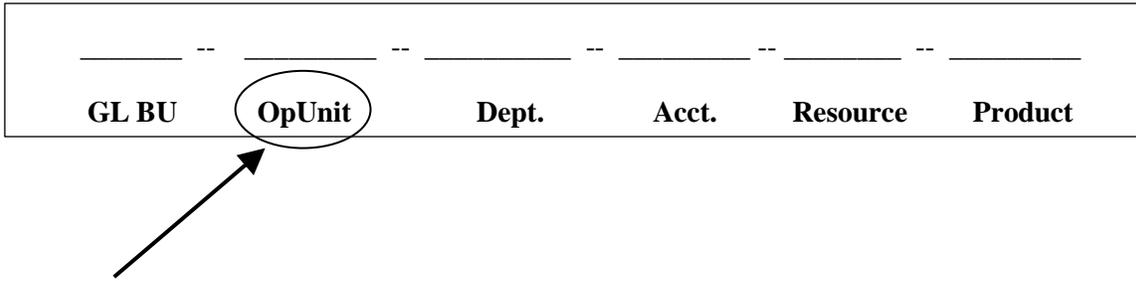
## Transaction Coding

The Holding Company uses an accounting software system to accumulate and distribute both direct costs and indirect costs. It is important to have costs properly classified as direct or indirect. Direct costs will be directly charged to the subsidiaries, while indirect costs will be allocated to the subsidiaries using pre-defined allocation factors. Below is a description of the coding.



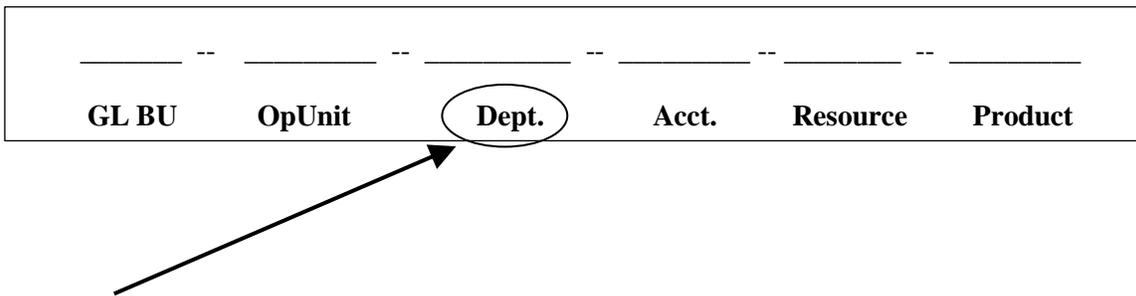
General Ledger Business Unit (“GLBU”):

- Five (5) character numeric field.
- The GLBU field is used to identify the company that will be receiving the charges, either as a direct cost or an indirect cost.
- The GLBU field is required to be populated on all accounting transactions
- The GLBU field will default based on the operating unit (Op Unit), as described below.



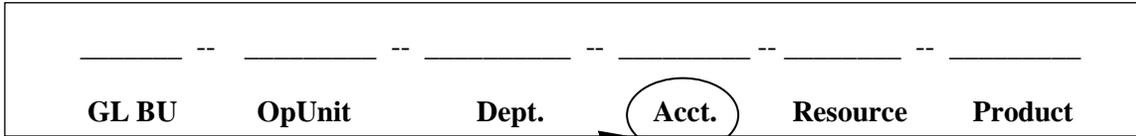
**Operating Unit (“OpUnit”):**

- Six (6) character numeric field.
- The Op Unit field is used to identify the account code block as either a direct cost or an indirect cost.
- If the cost is a direct cost, the Op Unit field will be populated using an Op Unit at the specific GLBU being charged.
- The Op Unit field will be populated using one of the BHUH Op Units for indirect costs. Indirect costs also include costs from other areas of the company that are directly related to the Utility Holding Company.



**Department (“Dept.”):**

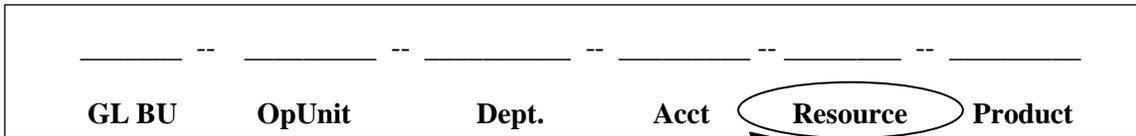
- Four (4) character numeric field
- The department field is used to identify where the cost(s) originated
- The department field is required on all income statement and capital transactions
- Every department is assigned to a GLBU



Account (“Acct.”):

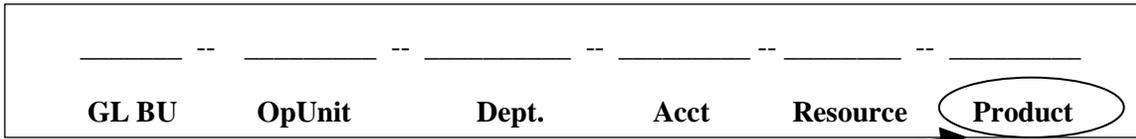
- Six (6) character numeric field
- The account field is required on all accounting transactions

All companies will generally use the same Chart of Accounts although some values will be specific to certain companies.



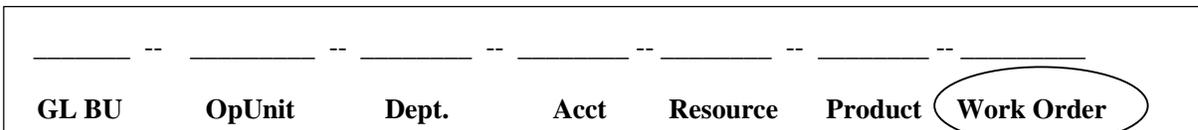
Resource:

- Four (4) character numeric field
- A Resource is used to identify types of costs
- The resource field is required for all income statement and capital accounting transactions



Product:

- Three (3) character numeric field
- A Product is used to identify business lines
- Examples of the product line include electric, gas, and non-regulated



Work Order:

- Eight (8) character numeric field
- Represents the collection of costs to allow the monitoring of a job or group of costs
- The work order field is required on all construction work in progress transactions

## Timekeeping

All BHUH employees are required to complete a timesheet for each two week pay period. Timesheets of appropriate employees must be approved by a supervisor.

Employees must complete the coding string, as previously discussed, for each time record. The timesheet will default the department and resource. However, the employee is responsible for providing the

remainder of the code block. Employees are encouraged to enter their time in one half hour increments, although they may use smaller increments if they so choose.

## **Loadings**

Certain benefits that are provided to employees become an inherent cost of labor. To account for these benefits and allow for them to be charged to the appropriate subsidiary, they become part of a loading rate that is added on to each payroll dollar.

The loading rates are calculated at the beginning of the year based on budgeted benefit expenses and budgeted labor. Benefit costs and loading rates are reviewed, and updated as needed. Below is a list of components of the loading rates:

General loadings:

- **Compensated Absences:** including but not limited to PTO (Paid Time Off), Holiday, Jury duty, Funeral pay, United Way day, Short-term Disability and Annual Physical appointment.
- **Payroll Taxes:** including but not limited to FICA, FUTA SUTA and city taxes.
- **Employee Benefits:** including but not limited to health and medical, 401K match and fees, Pension, Retiree healthcare and associated fees and Pension audit fees.
- **Incentives:** including but not limited to Non-officer incentive plans, Restricted Stock and Stock Option expense.

Loadings calculated on payroll are based on estimated benefit costs, therefore, differences between actual benefits will be inherent to this process. After the difference is calculated and reviewed for reasonableness, it is recorded to a separate department, and indirectly allocated to Black Hills Corporation subsidiaries.

## **Allocation Ratios**

As previously stated, BHUH costs are either directly charged to an operating company, or indirectly allocated when the cost is not associated with a specific operating company. Indirect costs are allocated

out using one of several pre-defined allocation ratios. Each department has been assigned one of these allocation ratios. All indirect costs of that department are then allocated using that ratio. When determining which allocation ratio should be assigned to each department, a ratio was selected based on the specific cost driver of that department. For instance, the expenses incurred by the Customer Service - Rapid City department are primarily related to the support of all utility customers. In this example, the cost driver for the Customer Service - Rapid City department indirect costs is the number of customers. Therefore, the indirect costs will be allocated based upon the Customer Count Ratio.

When determining how the assigned ratio should be applied, consideration is given to the operating companies or segments that are supported by the department. For instance, the Appliance Technical Training department was determined to have a cost driver of number of Service Guard customers. Therefore, the indirect costs will be allocated based on the Customer Count Ratio using Service Guard customers whereas the Customer Service – Rapid City department used in the previous example would be allocated based on the Customer Count Ratio using Regulated Utility customers.

For certain departments, a specific cost driver may not be clearly identifiable or the driver may not be cost effective to compute on a continuing basis. In these instances, a three-pronged general allocation ratio is used. This ratio equally weights three different general ratios: Gross Margin, Asset Cost, and Payroll Dollars. These ratios were chosen to be included in the Blended Allocator Ratio because they best allocate costs based on the diverse nature of BHUH operations.

A list of all allocation ratios, including a brief description of the ratio, the basis for the calculation of the ratio, and the department to which that ratio has been assigned, is attached hereto as Appendix 2.

## **Changing Allocation Ratios**

Allocation ratios are set at the first of the year, based upon financial information from the prior year ending December 31<sup>st</sup>. The ratios for Asset Cost and Customer Count are based on values as of the previous period ending December 31<sup>st</sup>. The ratios for Gross Margin, Payroll Dollars, are based on values for the 12 months ended December 31<sup>st</sup>.

Certain events may occur during the year that are deemed to be significant to BHUH that will require corresponding adjustments be made to the allocation ratios. Examples of these types of events include acquisitions, divestitures, new generation, significant change in asset base, significant staffing changes or new, significant revenue streams.

When these events occur, indirect allocation ratios will be adjusted. When adjusting allocation ratios, it is the policy of BHUH to not recalculate all allocation ratios. Rather, allocation ratios will be adjusted with pro forma adjustments for the subsidiary with a significant change in a specific allocation ratio base. For example, if an acquisition occurs during the middle of the year, pro forma values will be loaded. Asset values at the time of the acquisition would be used, as well as pro forma gross margin and payroll dollars for a 12 month period. It should be noted that estimations may be required, especially when significant additions or changes are expected as a result of the acquisition.

It should also be noted that asset values, gross margin, and payroll dollars for the other companies will not be changed. However, the ratios will change because the base against which the ratios are calculated will change. Operating companies would normally see decreased ratio values with acquisitions, and increased ratio values with divestitures. Changes will be effective as of the beginning of the month following the significant event, and will apply to all transactions for the month.

### **Subsidiary Payment for Direct and Indirect Charges**

It is the policy of BHUH to insure payments are made by the subsidiary companies for direct and indirect charges. All payments for direct and indirect charges must be remitted to BHUH by the end of the following month. BHUH will monitor payments received during the month to insure that all subsidiary companies make payment in a timely manner.

### **Allocating Fixed Assets**

BHUH maintains certain fixed assets that are used by and benefit all operating companies. These fixed assets primarily consist of computer hardware and software and shared office facilities. Because these fixed assets support all operating companies, they are allocated monthly as part of the month-end close process, along with the allocation of these assets' accumulated depreciation. Construction Work in Process balances are not allocated.

Allocated assets and accumulated depreciation are maintained in separate general ledger accounts at the subsidiary level so they are not intermingled with regular subsidiary fixed assets, and for ease of reconciliation.

The allocation ratio used to allocate assets and accumulated depreciation will vary depending on the type of asset being allocated, and will be based on the function the asset is serving. For instance, customer service software is allocated based on the Customer Count Ratio, while general office space is allocated using the Blended Allocator Ratio.

### **Allocating Capitalized Inventory**

The gas and electric meter shops are BHUH departments serving the utility operating companies. As meters are purchased, they are recorded as capitalized inventory (charged to plant-in-service) by BHUH, as the meters are issued out of inventory to the specific operating company those assets are transferred from BHUH to the specific utility operating companies. All unassigned gas and electric meter investment and accumulated depreciation reserve is held at BHUH, and is allocated to the applicable utilities monthly. The Customer Count Ratio is used for this allocation.

## **Appendix 1- BHUH Departments**

### ***UHC-GSS ADMINISTRATION (2301)***

Description: Provides for the development and execution of the gas supply portfolio plans for all gas distribution operating companies and regulated power plants fueled by natural gas. This plan includes purchasing strategies for the commodity and optimization and procurement of pipeline capacity and services. (Customer Count Ratio)

### ***UHC-ASSETS-LINCOLN CCTR/CAD (4247)***

Description: The assets invested for the Computer Aided Dispatch system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to service multiple utilities. Depreciation expense and maintenance expense on this group of assets is also charged from here. (Customer Count Ratio)

### ***UHC-ASSETS-FAME (4251)***

Description: The assets invested for the Facilitated Asset Mapping Enterprise system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to serve multiple utilities. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

### ***UHC-ASSETS-WORK MGMT (4257)***

Description: The assets invested for the Work Management system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to serve multiple utilities. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

### ***UHC-ASSETS-REG GENERATION (4258)***

Description: The assets for electric utilities specifically. This includes capitalized and centrally located hardware and software costs to serve multiple electric utilities. Depreciation expense on this group of assets is also charged from here. (Customer-Regulated)

### ***UHC-BENEFITS LOADINGS (4470)***

Description: Utilized for charging out benefits, including medical costs, to the operating departments. Provided that all labor is loaded with overhead loadings, only the residual charges are to the operating companies. (Blended)

### ***UHC-ACCOUNTING ACCRUAL ENTRIES (4474)***

Description: Created to facilitate the accrual of certain charges not related to specific departments. (Blended)

***UHC-ASSETS-BLENDED-ALL (4478)***

Description: The assets invested and centrally located for gas and electric operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

***UHC-ASSETS-BLENDED-ELECTRIC (4479)***

Description: The assets invested and centrally located for electric operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

***UHC-ASSETS-BLENDED-GAS (4480)***

Description: The assets invested and centrally located for gas operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

***UHC-ASSETS-BLENDED-CUSTOMERS (4481)***

Description: The assets invested and centrally located for gas and electric companies where the Customer Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

***UHC-DESIGN ENGINEERING GAS (5105)***

Description: Provides engineering support of gas transmission and distribution facilities including planning, monitoring, and analyses. (Customer-Regulated)

***UHC-STANDARDS AND COMPLIANCE GAS (5106)***

Description: Responsible for implementing and reporting DOT regulatory requirements, maintaining standards, and supporting GIS Smallworld mapping. (Customer-Regulated)

***UHC-TRANSMISSION PLANNING (5107)***

Description: Performs near and long-term (1-20 year) transmission planning to determine cost-effective transmission additions needed to reliably serve projected customer load. Performs studies in support of large customer requests and the FERC Tariff; and supports operational studies for planned outages. Provides support in meeting compliance with NERC Standards; and represents the corporation in regional and sub-regional planning groups. (Transmission)

***UHC-NERC COMPLIANCE (5108)***

Description: Develops, coordinates and oversees the Electric Utilities Group's compliance with mandatory North American Electric Reliability Corporation (NERC) Reliability Standards, which standards are enforceable through financial sanctions and are intended to ensure a reliable Bulk Electric System. (Transmission)

***UHC-FERC TARIFF AND COMPLIANCE (5109)***

Description: Develops, coordinates, and oversees the Electric Utilities Group’s compliance with the Federal Energy Regulatory Commission (FERC) requirements pertaining to electric transmission; and administers the Company’s Open Access Transmission Tariff (OATT) and Open Access Same-time Information System (OASIS). Administration of the Tariff, which outlines the “rules of the road” for transmission providers, the rates we charge, and the procedures and timelines in addressing customer requests (new load, new generators, or other requests to wheel power across the system). (Transmission)

***UHC-T AND D RELIABILITY CTR (5110)***

Description: Operates the Company’s transmission and distribution systems on a 24/7 basis; and plans and directs switching and outage restoration efforts for both emergency and planned outages. (Transmission)

***UHC-NERC TRANSMISSION AND TECH SUPPORT (5111)***

Description: Develops, coordinates and oversees the technical support piece of the Electric Utilities Group’s compliance with mandatory North American Electric Reliability Corporation (NERC) Reliability Standards, which standards are enforceable through financial sanctions and are intended to ensure a reliable Bulk Electric System. (Transmission)

***UHC-TRANSMISSION SERVICES MGMT (5112)***

Description: For all three electric utilities (BHP, CLFP and Colorado Electric), Transmission Services directs the 24/7 Reliability Centers in Rapid City and Pueblo, Transmission Planning, NERC Compliance, FERC Compliance, and Transmission Tariff Administration. (Transmission)

***UHC-ELEC ENGINEERING SERV (5120)***

Description: Engineering Services supports transmission and distribution activities within the Electric Utilities group including engineering, distribution planning, T and D asset management, metering, substation maintenance, Vegetation Management, GIS/drafting and outage management systems. Provides Director level support to GIS support functions as defined in Dept. 5305 for both the electric and gas network operations. (Blended)

***UHC-PWR SUPPLY AND RENEWABLES (5121)***

Description: Provides for the planning, development, and management of power supply and renewable strategies for electric operating companies. (Blended)

***UHC-ELECTRIC REGULATORY SERV (5122)***

Description: Supports and manages all electric regulatory filings, rate cases, and regulatory issues. (Blended)

***UHC-Technical Training(5254)***

Description: Provides technical training support for gas and electric utilities. (Customer-Regulated)

***UHC-GIS SUPPORT (5305)***

Description: Researches, builds and implements utility software solutions for the benefit of electric and gas network operations. This department supports Smallworld GIS, STORMS work management, PowerOn outage management, Korterra line locates, and GTViewer mobile maps. (Customer Count Ratio)

***UHC-GAS METERING SERV (5490)***

Description: Manages and provides gas measurement support to field operations located in gas service states. (Customer-Regulated)

***UHC-UTILITY FINANCIAL MGMT (5668)***

Description: Assists in the compliance with regulatory and operating unit business strategy from a financial perspective. Responsible for preparation of all phases of the financial planning process including budgets, forecasts and strategic plans. Prepares various operating and financial reports for management. (Blended)

***UHC-UTILITY ACCOUNTING (5670)***

Description: Responsible for closing the general ledger for the utilities on a monthly basis and assists in the compliance of all accounting rules and regulations. Prepares various operating and financial reports for utility financial management. Assists the utility financial management team with monthly analysis. (Blended)

***UHC-EXEC MGMT-CUST SERV (5674)***

Description: Provides general direction and supervision of customer service activities. Encourages the safe, efficient and economical use of the utilities services. (Customer Count Ratio)

***UHC-EXEC MGMT-UTILITIES (5682)***

Description: Provides guidance, direction and management to overall utility operations and support services. (Blended)

***UHC-MARKETING (5688)***

Description: Provides business and planning services, including marketing. Searches for competitive business opportunities and energy solutions (Blended)

***UHC-EXTERNAL AFFAIRS (5690)***

Description: Aligns business objectives with the integrated communications provided to our stakeholders. Including: media relations, coordination of community involvement programs, developing and managing

a consistent communications program, and leading economic development for community growth (Customer Count Ratio)

***UHC-Electric Meter Services (5691)***

Description: Manages and provides electric measurement support to field operations located in electric service states. Also manages AMI system for all electric entities. (Customer-Regulated)

***UHC-CUSTOMER SERV-LINCOLN (5701)***

Description: Answers and resolves customer inquiries, requests for services, for both regulated and non-regulated customers. (Customer Count Ratio)

***UHC-CUSTOMER ACCT SERV-OMAHA (5702)***

Description: Assists customers with billing, payment and collection issues. (Customer Count Ratio)

***UHC-CUSTOMER SERV SUPP (5703)***

Description: Provides support to customer services areas through customer information system project management and process control for customer information system changes, revenue assurance analysis, quality analysis, training, and customer and community communication. (Customer Count Ratio)

***UHC-CUSTOMER ACCT SERV-RC (5704)***

Description: Assists customers with billing, payment and collection issues. (Customer Count Ratio)

***UHC-CUSTOMER SERV-RC (5705)***

Description: Answers and resolves customer inquiries and requests for services, for both regulated and non-regulated customers. (Customer Count Ratio)

***UHC-LARGE VOLUME BILLING (5706)***

Description: Manages and maintains regulated and non-regulated sales and billing of gas to large volume customers. (Customer Count Ratio)

***UHC CS CTR SUPPORT (5707)***

Description: Provides direct support to the operations of the two customer service centers in Lincoln and Rapid City. Provides analysis on employee staffing, monitoring service metrics, projects, and planning. (Customer Count Ratio)

***UHC-BILL PRINT AND LOCKBOX (5711)***

Description: Prepares prints, inserts and mails regulated and non-regulated letters and bills for BHC utility customers. Processes payments for regulated and non-regulated services mailed back to BHC by utility customers. (Customer Count Ratio)

***UHC-BILL PROCESSING (5712)***

Description: Outside services, supplies and postage expenses required for billing, correspondence, remittance, credit and collection services related to BHC utility customers. (Customer Count Ratio)

***UHC-FIELD RESOURCE CTR-LINCOLN (5715)***

Description: Plans work, and schedules and dispatches premise service activities to both regulated and non-regulated customers. (Customer Count Ratio)

***UHC-FIELD RESOURCE CTR-RC (5717)***

Description: Plans work, and schedules and dispatches premise service activities to both regulated and non-regulated customers. (Customer Count Ratio)

***UHC-SERV GUARD MARKETING (6005)***

Description: Provides and manages product development for consumer marketing with the primary focus on Service Guard (appliance options) a non-regulated business for utility/regulated customers. (Customers-Service Guard)

***UHC Gas Engineering Management (6183)***

Description: Provides management support to gas engineering and metering activities with emphasis on reliability, customer service, compliance and safety. (Blended)

***UHC-TECHNICAL TRN-APPLIANCE (6331)***

Description: Designs and implements safety programs and incentives, incident investigation, hazard identification and problem solving, and appliance repair technical skill training, program development and administration of technical-related training for our front-line utility employees supporting Service Guard. (Customers-Service Guard)

***UHC-GAS REGULATORY SERV (6372)***

Description: Supports and manages all gas regulatory filings, rate cases, and regulatory issues. (Blended)

***UHC-ENERGY SERVICES (6373)***

Description: Supports the energy efficiency programs across the utilities supported by BHUC (Customer Count Ratio)

***CATCH-ALL***

Description: Departments at Black Hills Corporation that are not specifically listed in the CAM or included in the master allocation design that charge BHUH will be allocated using the Blended Allocator Ratio.

## Appendix 2- Allocation Ratios

Any asset ratios and employee and customer count ratios are calculated as of period-end dates, while revenue and expense ratios are calculated for twelve months ended as of period-end dates.

*Asset Cost Ratio* – Based on the total cost of assets as of December 31 for the prior year, the numerator of which is for an applicable operating company and the denominator of which is all applicable operating companies. Assets are limited to property, plant, and equipment, and include construction or work in process. Assets are also reported at their FERC value, meaning that assets for the utility subsidiaries will not include any elimination that are done to bring their FERC financial statements into compliance with GAAP. FERC requires that acquired fixed assets be recorded at their gross value with accumulated depreciation, while GAAP requires acquired fixed assets be recorded at their net value. An elimination journal entry is used to eliminate the gross-up for preparation of GAAP financial statements, but this elimination journal entry is not factored into the calculation of the Asset Cost Ratio.

No departments utilize this ratio, but it is a component in the Blended Ratio.

*Gross Margin Ratio* – Based on the total gross margin for the prior year ending December 31, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies. Gross margin is defined as revenue less cost of sales.

No departments utilize this ratio, but it is a component in the Blended Ratio.

*Payroll Dollar Ratio* –Based on the total payroll dollars for the prior year ending December 31, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies. Payroll dollars include all bonuses and compensation paid to employees, but do not include items that are only included on an employee's W-2 for gross-up and income tax purposes, such as life insurance premiums of \$50,000.

No departments utilize this ratio, but it is a component in the Blended Ratio.

*Blended Ratio* – A composite ratio comprised of an average of the Asset Cost Ratio, Payroll Dollar Ratio and the Gross Margin Ratio. These factors are equally weighted. This factor is sometimes referred to as the general allocation factor.

Departments that utilize this ratio include BHUH benefits loading, retiree, BHUH accounting accruals, all blended assets, electric blended assets, gas blended assets, electric engineering services, electric regulatory services, utility margin accounting, utility financial management, utility accounting, utility operations management, utility market services, power supply and renewables, and gas regulatory services.

Any department at Black Hills Corp that appropriately charges a BHUH operating unit but is not part of the predefined allocation design will also utilize the Blended Allocator Ratio. For example if a BHSC IT department provides maintenance on the SCADA system supporting the regulated electric companies they would charge BHUH operating unit 201900 and these costs would be allocated using the Blended Ratio across the regulated electric companies.

*Customer Count Ratio* – Based on the number of customers at the end of the prior year ending December 31, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

There are currently several variations of the Customer Count ratio that are specific to the type of customers that are appropriate to the department for which charges are being allocated. For example a department that supports gas engineering would be allocated based on gas customers only whereas a general customer service department would be allocated based on total customers.

As of December 31, 2012 BHUH is utilizing the following customer counts to calculate customer count ratios additional variations may be added if additional product lines are added or in the event that additional segmentation of customers are deemed appropriate to most effectively allocate costs from a specific department

Regulated Electric Customers

Regulated Gas Customers

Non-Regulated Customers

## Total Customers

Departments that utilize this ratio include gas supply services administration, computer aided dispatch, FAME assets, general assets, work management assets, regulated generation assets, customer blended assets, electric AMI blended assets, gas engineering services, GIS support, general meter shop, customer service management, Lincoln customer service center, Omaha customer account services, Rapid City customer service support, Rapid City customer account services, Rapid City customer service center, large volume billing, customer service center support, bill processing, Lincoln field resource center, Rapid City field resource center, service guard marketing, lockbox & bill-print, and appliance technical training.

*Transmission Ratio* – Based on a simple average of a multiple of cross-sectional drivers for the transmission function that includes customer counts, peak load, number of substations, number of feeders, number of distribution and transmission miles, and number of remote terminal units. The numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

The departments that utilize this ratio include transmission planning, NERC compliance, FERC tariff and compliance, transmission and distribution reliability, NERC transmission and tech support, and transmission service management.