

Black Hills Power, Inc.  
South Dakota  
Revenue Requirement Model Description

**Section K**

**20:10:13:88. Statement K -- Income Taxes.** Statement K shall show for the test period income taxes computed on the basis of the rate of return claimed applied to the overall utility rate base and separated between federal and state taxes. If the rate base claimed includes adjustments other than book figures for the test period 13-month average, the income taxes shall be computed separately for claimed rate base and for the 13-month average rate base per books for the test period. All tax adjustments shall be completely described and the amounts shown separately. Amounts of deferred taxes debited and credited shall be shown separately. The amounts and basis of assignment of income taxes attributed to other utility departments and nonutility operations shall be shown, together with all tax savings affecting the total tax liability. If the filing public utility joins in a consolidated tax return, the total estimated tax savings, expressed as a percentage, resulting from the filing of a consolidated return shall be given, as well as a full explanation of the method of computing the tax savings. Any abnormalities such as nonrecurring income, gains, losses, and deductions affecting the income tax for the test period shall be explained and the tax effect set forth. Items required by §§ 20:10:13:89 to 20:10:13:93, inclusive, shall be submitted as a part of statement K.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:** SDCL 49-34A-4.

**Law Implemented:** SDCL 49-34A-10, 49-34A-12, 49-34A-41.

**Statement K Page 1 & 2:** This Statement is used to adjust federal income tax to a normalized amount based on the adjusted debt to equity structure and based on adjusted operating income projections.

**Statement K Page 3:** This Statement shows the calculation of implied debt expense using the adjusted rate base, multiplied by the adjusted cost of debt. Based on this calculation, there would be less interest expense and therefore more taxable income. The decrease of interest expense is reported on Statement K pg. 1 line 4.

Black Hills Power, Inc.  
South Dakota  
Revenue Requirement Model Description

### **Section K**

**20:10:13:89. Schedule K-1 -- Working Papers for Federal Income Taxes.** In support of federal income taxes, the utility shall submit a complete reconciliation of the book net income with taxable net income as reported to the federal Internal Revenue Service for the most recent year for which a tax return was filed and for the three previous years. A complete explanation of all items in the reconciliation shall be submitted. If the tax allowances claimed give effect to omission of items appearing or inclusion of items not appearing in the reconciliations for the most recent tax return, the reasons for such omissions or inclusions shall be submitted. All items in the reconciliation shall be referenced specifically to the elements of the cost of service to which they refer.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 86, effective November 24, 1985; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:**SDCL 49-34A-4.

**Law Implemented:**SDCL 49-34A-10, 49-34A-12, 49-34A-41.

Black Hills Power, Inc.  
South Dakota  
Revenue Requirement Model Description

### Section K

**20:10:13:90. Schedule K-2 -- Differences in Book and Tax Depreciation.** If tax depreciation differs from book depreciation, the utility shall file schedule K-2 showing the computation of the tax depreciation which will indicate the differences between book and tax depreciation on a straightline basis, and differences arising from class life (ADR) depreciation, and the excess of liberalized depreciation and amortization of emergency facilities over straightline depreciation for tax purposes for the taxable year or years.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:** SDCL 49-34A-4.

**Law Implemented:** SDCL 49-34A-10, 49-34A-12, 49-34A-41.

Black Hills Power, Inc.  
South Dakota  
Revenue Requirement Model Description

### Section K

**20:10:13:91. Schedule K-3 -- Working Papers for Consolidated Federal Income Tax.** If the utility joins in the filing of a consolidated federal income tax return, schedule K-3 shall be submitted showing the net taxable income or loss for each company in the consolidation, including an adjustment to effect the exclusion of excess of liberalized depreciation and amortization of emergency facilities over straightline depreciation for each company involved. There shall also be submitted with the statement of taxable net income or tax loss of each individual company participating in the consolidated returns, the details of consolidating adjustments and a computation of the system tax liability based on the consolidated net income for the last tax year ending within or immediately prior to the test period for which a tax return was filed. In addition, there shall be included a computation showing the percentage of tax savings arising from consolidation for the taxable year or years covered by the test period. Only one copy of schedule K-3 need be supplied by the utility.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 86, effective November 24, 1985; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:** SDCL 49-34A-4.

**Law Implemented:** SDCL 49-34A-10, 49-34A-12, 49-34A-41.

Black Hills Power, Inc.  
South Dakota  
Revenue Requirement Model Description

### Section K

**20:10:13:92. Schedule K-4 -- Working Papers for an Allowance for Current Tax Greater Than Tax Calculated at Consolidated Rate.** If the utility claims an allowance for current tax in its cost of service which would be greater than the federal income tax calculated at the consolidated tax rate or taxes as a percentage of total taxable income of individual companies with positive taxable income, full disclosure thereof shall be made, including the allocation among utility and nonutility departments of the tax payable and the assignment of deductions or tax benefits relied upon, or both.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:** SDCL 49-34A-4.

**Law Implemented:** SDCL 49-34A-10, 49-34A-12, 49-34A-41.

Black Hills Power, Inc.  
South Dakota  
Revenue Requirement Model Description

### Section K

**20:10:13:93. Schedule K-5 -- Working Papers for Claimed Allowances for State Income Taxes.** In support of the claimed allowances for income taxes paid state governments, the utility shall submit schedule K-5 showing the income tax paid each state in the current or previous year covered by the test period, including the effect of liberalized depreciation on the taxes paid.

**Source:** 2 SDR 90, effective July 7, 1976; 12 SDR 151, 12 SDR 155, effective July 1, 1986.

**General Authority:** SDCL 49-34A-4.

**Law Implemented:** SDCL 49-34A-10, 49-34A-12, 49-34A-41.

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

Statement K  
Page 1 of 3

Line No.	Description	Reference	(a) Per Books	(b) Pro Forma Tax Rtn True Up	(c) (a) + (b) Per Books as Adjusted Total	(d) Pro Forma Adjustments	(e) (c) + (e) Adjusted Total	(f) Additional Revenue Required	(g) (e) + (f) Claimed Rate of Return
1	Operating Income Before								
2	Federal Income Taxes	Strmt. M Ln. 14(a)	\$ 60,839,739	\$ -	\$ 60,839,739	\$ 2,801,238	\$ 63,640,976	\$ 12,208,401	\$ 75,849,377
3	AFUDC		(3,931,226)	-	(3,931,226)	-	(3,931,226)	-	(3,931,226)
4	Less Interest Expense		22,233,936	-	22,233,936	(1) (2,206,631)	20,027,305	-	20,027,305
5	Subtotal	Ln.2 - Ln.3 - Ln.4	42,537,028	-	42,537,028	5,007,868	47,544,896	12,208,401	59,753,298
6									
7	Tax Adjustments - Permanent Differences								
8	Fines & Penalties		(33,117)	106,000	72,883	-	72,883	-	72,883
9	Meals & Entertainment		80,540	13,996	94,536	-	94,536	-	94,536
10	Lobbying		37,459	-	37,459	-	37,459	-	37,459
11	Club Dues		3,411	3,005	6,416	-	6,416	-	6,416
12	Equity AFUDC (net of depr)		167,939	-	167,939	(404,311)	(236,372)	-	(236,372)
13	PEP Life - Cash Surrender Value		(177,964)	(706,681)	(884,645)	-	(884,645)	-	(884,645)
14	Officer Life Insurance		(108,692)	-	(108,692)	-	(108,692)	-	(108,692)
15	Retiree HC Subsidy		-	(71,914)	(71,914)	-	(71,914)	-	(71,914)
16	Total Permanent Differences	Sum (Ln.8:Ln.15)	(30,424)	(655,594)	(686,018)	(404,311)	(1,090,329)	-	(1,090,329)
17									
18	Tax Adjustments - Temporary Differences								
19	Prepays		-	19,771	19,771	-	19,771	-	19,771
20	State Tax Deduction		-	(5,063)	(5,063)	-	(5,063)	-	(5,063)
21	Employee Group Insurance		(42,465)	-	(42,465)	-	(42,465)	-	(42,465)
22	Pension		545,759	(2,299,000)	(1,753,241)	-	(1,753,241)	-	(1,753,241)
23	PEP Plan		(86,060)	-	(86,060)	-	(86,060)	-	(86,060)
24	Performance Plan Bonus		-	3,108	3,108	-	3,108	-	3,108
25	Retiree Healthcare		(172,474)	(852,539)	(1,025,013)	-	(1,025,013)	-	(1,025,013)
26	Pension Supplement (SERP)		59,656	-	59,656	-	59,656	-	59,656
27	Deferred Energy		1,089,537	(2,822)	1,086,715	-	1,086,715	-	1,086,715
28	Deferred Costs		(704,284)	238,963	(465,321)	-	(465,321)	-	(465,321)
29	Vacation		42,725	-	42,725	-	42,725	-	42,725
30	OCI Derivative - Interest Rate SW		(101,664)	(1)	(101,665)	-	(101,665)	-	(101,665)
31	Results Compensation		(128,130)	-	(128,130)	-	(128,130)	-	(128,130)
32	Insurance Reserve		-	-	-	-	-	-	-
33	Line Extension Deposits		(289,220)	28,575	(260,645)	-	(260,645)	-	(260,645)
34	Accrued Litigation		888,139	-	888,139	-	888,139	-	888,139
35	Reacquired Bond Loss		243,627	-	243,627	-	243,627	-	243,627
36	Power Plant Maintenance		434,448	-	434,448	-	434,448	-	434,448





**BLACK HILLS POWER, INC.**  
**INTEREST EXPENSE - ANNUALIZATION ADJUSTMENT**  
**For the Test Year Ended September 30, 2013**

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

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

**BLACK HILLS POWER, INC.**  
**RECONCILIATION OF BOOK NET INCOME WITH TAXABLE INCOME**  
For the Years 2008 Through 2012

Schedule K-1  
Page 1 of 1

Line No.	Description	2008	2009	2010	2011	2012
1	Net Income Per Books	\$ 22,759,260	\$ 23,138,853	\$ 31,267,982	\$ 27,097,056	\$ 27,086,197
2						
3	Income Taxes	9,550,527	8,314,209	10,735,334	11,994,880	14,312,489
4	Fines & Penalties	1,428	-	32,831	328,434	(72,392)
5	Meals & Entertainment	80,383	81,677	98,233	93,796	81,370
6	Club Dues	-	-	7,270	2,615	5,295
7	Lobbying	25,303	21,791	497	43,200	57,396
8	Equity AFUDC	(3,331,715)	(5,483,957)	(2,575,065)	(421,749)	(84,997)
9	PEP Life - Cash Surrender Value	(246,285)	(198,311)	(215,334)	(858,301)	(240,672)
10	Officer Life Insurance	(1,180)	(196,798)	(434)	606,603	(232,777)
11	RAR 79-84	(2,835)	-	-	-	-
12	State Tax Deduction					(5,063)
13	Retiree Healthcare Subsidy	(102,899)	(112,053)	(88,556)	(67,263)	(71,914)
14	Employee Group Insurance	30,776	(7,829)	(6,327)	(3,665)	(42,465)
15	Pension	135,366	3,387,334	(5,519,290)	(5,054,522)	952,072
16	PEP Plan	97,758	(191,048)	317,264	(31,728)	(120,150)
17	Insurance Reserve	-	-	(6,125)	(249)	6,374
18	Performance Plan Bonus	(20,205)	(10,975)	8,569	819	3,108
19	Interest on IRS Settlement	196,312	-	-	-	-
20	Retiree Healthcare	421,875	233,564	582,449	170,433	(665,146)
21	Pension Supplement (SERP)	(33,836)	17,816	3,192	(26,394)	68,772
22	Vacation	35,240	3,198	(306,932)	204,469	(75,776)
23	Deferred Energy	(3,655,202)	(3,136,024)	4,227,162	(3,364,464)	(288,440)
24	Power Plant Maintenance	-	-	568,755	(533,660)	99,757
25	Deferred Costs	35,554	(296,059)	(224,432)	235,580	145,193
26	Derivatives - Interest Swap	64,331	64,331	64,331	64,331	64,331
27	Air Allowances	-	(366,346)	-	-	-
28	Results Compensation/Bonus	284,895	(533,456)	1,558,829	187,301	227,702
29	Unit of Property	(3,482,329)	(2,689,718)	(4,884,413)	(6,831,706)	(3,733,104)
30	Capitalized Interest	1,778,130	3,854,313	1,372,307	-	-
31	Line Extension Deposits	(427,393)	(691,339)	(966,068)	(2,038,336)	(428,107)
32	Accrued Litigation					888,139
33	Officer Restricted Stock	-	-	-	-	-
34	Reacquired Bond Loss	160,478	160,477	(809,641)	250,982	264,466
35	Rate Refund	-	1,221,513	(383,799)	191,089	(152,600)
36	State Deferred Adjustment					(4,110)
37	Property Amortization	12,414	-	(32,392)	(6,462)	-
38	Workman's Compensation	1,441,495	(240,540)	(472,860)	(141,544)	(246,554)
39	Sec 481 (a) Facts and Circumstances	(13,876,649)	-	-	-	-
40	Contributions in Aid of Construction	797,601	380,928	499,286	2,523,025	2,810,642
41	Cost of Removal	(856,918)	(573,890)	(1,938,139)	(2,186,968)	(1,853,512)
42	Depreciation & Amortization	(9,096,332)	(19,473,849)	(84,804,932)	(52,374,871)	(7,068,773)
43	Sec 162, Sec 174 & Warranty Expense	(17,044,059)	(9,453,704)	(1,949,440)	-	(1,439,265)
44	Simplified Service Cost	209,826	(13,192)	494	(17,162)	(52,618)
45	Facts and Circumstances Method	(5,916,025)	(5,286,102)	(5,082,749)	(2,830,649)	(1,405,061)
46	Prepaid Expenses	(93,639)	(107,890)	(14,412)	(85,100)	19,771
47	Repair Allowance	(1,579,972)	(1,604,144)	(1,360,605)	-	-
48	Bad Debt Reserve	(18,368)	251,908	351,884	163,188	(1,789,726)
49	Book/Tax Gain Difference	173,130	4,386,992	5,299,616	657,621	(88,254)
50	Gain Deferral					(757,737)
51	Taxable income before NOL	<u>\$ (21,493,759)</u>	<u>\$ (5,148,320)</u>	<u>\$ (54,645,660)</u>	<u>\$ (32,059,371)</u>	<u>\$ 26,173,861</u>

**BLACK HILLS POWER, INC.**  
**RECONCILIATION OF BOOK NET INCOME WITH TAXABLE INCOME**  
**For the Years 2008 Through 2012**  
**CONFIDENTIAL (NOT AVAILABLE TO THE PUBLIC)**

**Schedule K-1**  
**Page 1 of 1**

**BLACK HILLS POWER, INC.**  
**DIFFERENCES IN BOOK AND TAX DEPRECIATION**  
**For the Year Ended December 31, 2012**

Line No.	Description	Reference	Amount
1	Bonus Depreciation		\$ 12,173,979
2	Current Year MACRS Declining Balance		609,692
3	Current Year MACRS Straight Line		-
4	ACRS and Other		95,770
5	Prior Years MACRS		20,290,754
6	Tax Depreciation	Sum (Ln.1:Ln.5)	<u>33,170,195</u>
7			
8	Book Depreciation		<u>26,101,422</u>
9	Excess Tax Over Book Depreciation	Ln. 6 - Ln. 8	<u>\$ 7,068,773</u>
10			
11	Note: Above amounts are per the last filed tax return covering the year ended December 31, 2012.		

**BLACK HILLS POWER, INC.**  
**TAX ALLOCATION**  
**For the Year Ended December 31, 2012**

Schedule K-3  
Page 1 of 1

Line No.	Companies Included in Consolidated Tax Return	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
		Taxable Income	NOL	(a) + (b) Adjusted Taxable Income	Tax Rate	(c) * (d) Income Tax Before Credits	Hire Credit	R & D	Alternative Motor Vehicle	Alternative Vehicle Refueling Prop	Income Tax
1	Black Hills Power, Inc.	\$ 26,173,862	\$ (26,173,862)	\$ -	35%	\$ -	\$ -	\$ (70,373)	\$ (15,000)	\$ -	\$ (85,373)
2	Black Hills Corporation	28,824,597	(28,824,597)	-	35%	-	-	(130,179)	(7,500)	(2,142)	(139,821)
3	Black Hills Exploration and Production, Inc.	127,537,493	(127,537,493)	-	35%	-	-	(13,350)	-	-	(13,350)
4	Cheyenne Light, Power and Fuel	(2,802,825)	2,802,825	-	35%	-	-	(111,076)	(15,000)	(771)	(126,847)
5	Wyodak Resources Development Corp.	7,290,238	(7,290,238)	-	35%	-	-	(13,800)	-	-	(13,800)
6	Enserco Energy, Inc.	2,255,614	(2,255,614)	-	35%	-	-	-	-	-	-
7	Black Hills Gas Resources, Inc.	(10,512,358)	10,512,358	-	35%	-	-	-	-	-	-
8	Black Hills Utility Holdings, Inc.	21,419,952	(21,419,952)	-	35%	-	-	-	-	-	-
9	EIF Investors, Inc.	-	-	-	35%	-	-	-	-	-	-
10											
11	Total	\$ 200,186,573	\$ (200,186,573)	\$ -		\$ -	\$ -	\$ (338,778)	\$ (37,500)	\$ (2,913)	\$ (379,191)

13 **Tax savings Due to Consolidation**

14 There will be no tax savings as a result of filing a consolidated tax return for the year ended December 31, 2012.

15 NOL reflects utilization of carry forward that may have been generated by other members of the consolidated group.

16 **Footnote**

17 Taxable income per above for Black Hills Power, Inc., includes non-operating taxable income.

**BLACK HILLS POWER, INC.**  
**TAX ALLOCATION**  
**For the Year Ended December 31, 2012**

**Schedule K-3**  
**Page 1 of 1**

**CONFIDENTIAL (NOT AVAILABLE TO THE PUBLIC)**

**BLACK HILLS POWER, INC.**  
**CURRENT INCOME TAX**  
**For the Test Year Ended September 30, 2013**

**Schedule K-4**  
**Page 1 of 1**

<b>Line No.</b>	<b>Description</b>
1	As shown in Statement K, page 1, current federal income tax per books is calculated on a
2	separate return basis at the statutory rate of 35%.

**BLACK HILLS POWER, INC.**  
**STATE INCOME TAXES**  
**For the Test Year Ended September 30, 2013**

<u>Line No.</u>	<u>State</u>	<u>Amount</u>
1	Montana	\$ 3,403
2		
3	Wyoming	N/A
4		
5	South Dakota	N/A
6		
7	Nebraska	N/A