

**BLACK HILLS POWER, INC., d/b/a BLACK HILLS ENERGY
POLICY OF CAPITALIZING INTEREST AND OTHER OVERHEADS DURING CONSTRUCTION
FOR THE PERIOD ENDING SEPTEMBER 30, 2025**

**COST OF SERVICE STUDY
Schedule D-5**

(a)	(b)
Line No.	Policy Description
1	<u>Allowance for Funds Used During Construction (AFUDC)</u>
2	AFUDC is computed monthly and applied to projects which are under construction for more than thirty days with the exception of the
3	following:
4	1. Land;
5	2. Projects totally funded through customer advances, payments, or CIACS;
6	3. Projects that are in the preliminary investigation or research and development stages; and
7	4. Retirement only projects.
8	AFUDC is applied monthly and projects receive 1/2 of the charge in the first and last months of the construction period. Capitalization of
9	AFUDC ceases when the project is placed in service or once a project hasn't had charges for 90 days. The AFUDC rate is calculated in
10	accordance with the formula prescribed by FERC.
11	
12	<u>Engineering & Supervision (E&S) Overheads</u>
13	E&S overheads include a portion of compensation and expenses for personnel such as engineers, surveyors, inspectors,
14	and their support staff, specifically related to construction activities. These overheads also encompass payments to
15	external firms or individuals contracted to provide services such as planning, design, cost estimation, supervision,
16	inspection, and general consulting in support of construction work.
17	
18	Whenever possible, E&S costs that are directly attributable to a capital project should be charged directly to that
19	project, where they will be capitalized as identifiable project costs. In cases where direct assignment is not feasible,
20	E&S costs may be charged to the E&S overhead pool.
21	
22	The pool is then allocated to construction work orders on a monthly basis, using actual charges incurring during the
23	current month to guide the distribution.
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25	The E&S Policy was established as an appendix to the Capitalization Policy in January 2022.
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27	<u>Administrative & General (A&G) Overheads</u>
28	A&G overheads represent indirect costs associated with supporting utility operations. These include a portion of
29	salaries and expenses from administrative departments such as Accounts Payable, Legal, and Human Resources, as
30	well as facility-related costs like rent. Additionally, A&G overhead can encompass payments made to external
31	entities contracted to perform administrative functions on behalf the utility.
32	
33	To ensure accurate capitalization, the utility employs a monthly process to allocate A&G overheads to capital projects.
34	This allocation is based on actual charges incurred during the current month, ensuring that capital projects reflect a
35	fair share of indirect administrative support.
36	
37	Following the allocation, the A&G pool is replenished through a systematic sweep of designated A&G accounts. This
38	sweep is performed at a predetermined rate, maintaining the integrity of the pool and supporting ongoing allocations.